



Packaging
Products



Fine Papers



Tissue Papers

Profile Founded in 1964, Cascades Inc. is a North American leader in the production, converting and marketing of packaging products, fine papers and tissue papers. Internationally, the Cascades Group employs close to 12,000 people and operates 114 modern and versatile operating units located in Canada, the United States, France, England, Germany and Sweden. The Group recycles more than two million tons of paper and board annually, supplying the majority of its fibre requirements. Leading-edge de-inking technology, sustained research and development, and more than 35 years of experience in recycling are all distinctive strengths that enable Cascades to manufacture innovative value-added products. Cascades' common shares are traded on the Toronto Stock Exchange under the ticker symbol CAS.

2,800,000,000 dollars in sales

Full Speed Ahead. In 1999, Cascades recorded sales of \$2.8 billion, making it the third largest company in its industry in Canada. Reflecting the Company's diversified geographic positioning, revenues were spread as follows: \$1.5 billion in Canada, \$0.7 billion in the United States and \$0.6 billion in Europe and elsewhere in the world.

Canada: 52%
United States: 28%
Europe and
elsewhere: 20%



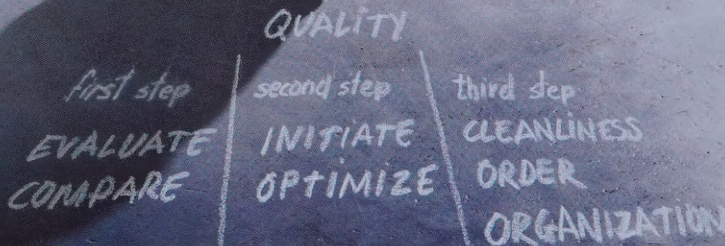
15,000,000 dollars in savings

Total Quality, and Nothing Else. In 1997, Cascades launched a major quality and productivity improvement program to increase the overall yield of its operations by targeting three elements: equipment-utilization rates, equipment-efficiency rates, and product-compliance rates. Among other things, this internationally-recognized method can notably be used to compare the performance of two businesses in the same sector. In 1999, the program produced recurring operational savings of \$15 million. In fiscal 2000, we again expect several tens of millions of dollars in additional savings throughout the Group. Emphasizing quality thereby enables Cascades to meet the most exacting customer expectations while improving its own financial performance.

Implementation of the quality and productivity improvement program is a three-phase process at Cascades. During the first phase, current operating costs related to non-value-added activities are assessed at each production unit. This phase was carried out to near completion in 1999.

In the second phase, an annual ongoing improvement plan is formulated for each facility targeted under the program. Optimum working methods are then implemented through collaboration with employees, in order to optimize the use and performance of equipment.

Finally, in the third phase of the program, the HSO (Hygiene, Storage and Organization) system is implemented, under which substantial productivity gains can be obtained. Half of all production units have already phased in the HSO system, and all units in the Cascades Group will be compliant by the end of 2002.



2,200,000 tons of recycled materials

Holding All Levers of Expertise. Since its inception, Cascades has made recovery and recycling integral priorities. Consistent with this tradition, in fiscal 1999, the Corporation ranked fifth in North America for volume of recycled material used in its production: 2.2 million tons, representing two thirds of raw materials used at the Group's units. Cascades intends to increase its control over the supply sources of its recycled materials, in order to ensure their quality while protecting itself from market fluctuations. At the present time, the Company can count on a stable supply for 900,000 tons of recycled materials annually, including 500,000 tons derived from its own sorting centres. In addition, ultramodern de-inking technology enables Cascades to produce cost-effective, high-quality fibre from low-end paper and board through recycling.





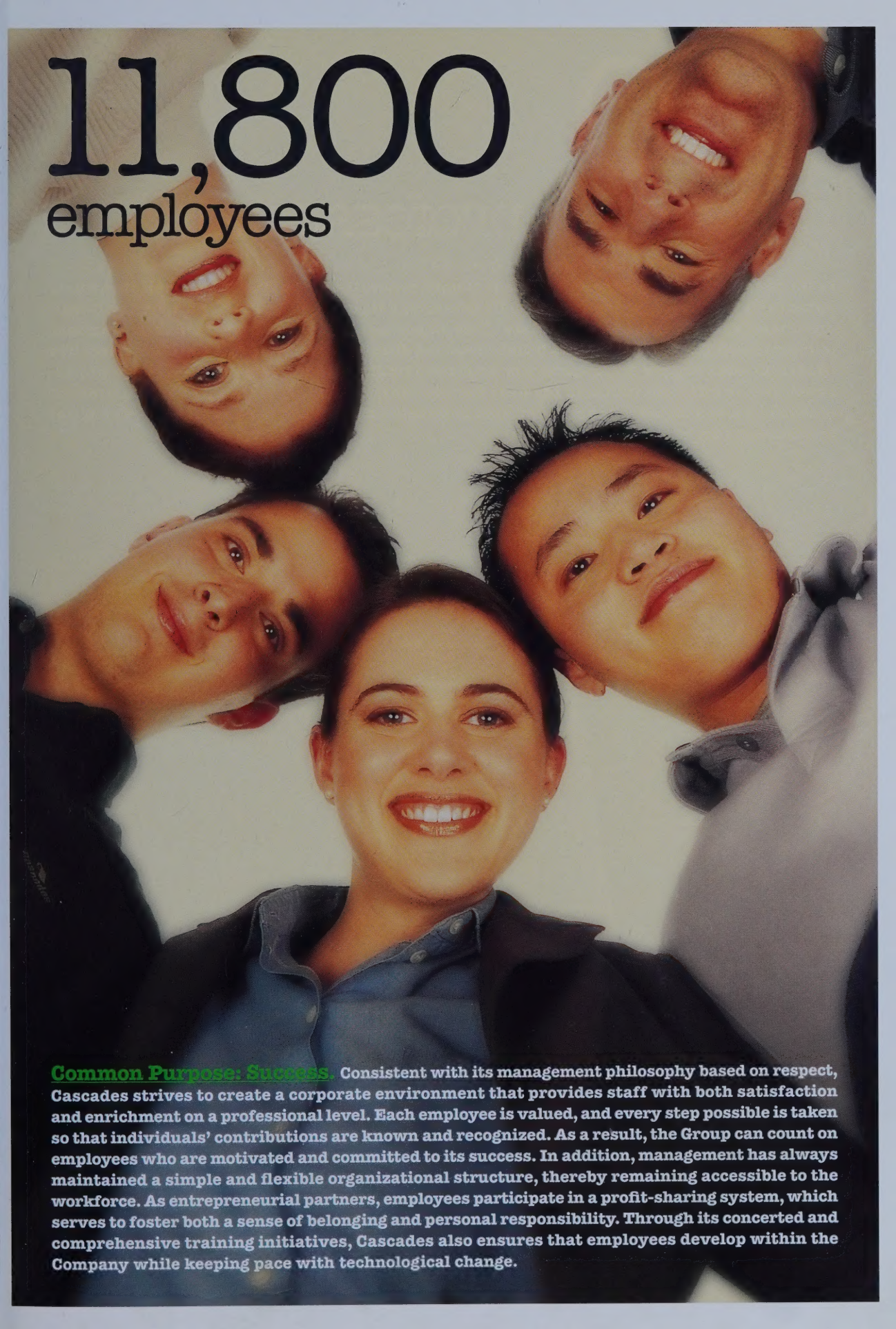
370,000

hours of training

Knowledge and Recognition. Throughout the Cascades Group, \$12.7 million, or 2.3% of total payroll, was invested in employee training in 1999. The Group continues to pioneer innovative programs, such as the first-ever workplace MBA offered in Canada, a joint initiative launched by the Cascades Training Centre (CTC) with the University of Sherbrooke. Each year, Cascades offers its employees several workshops and professional development programs. In fiscal 1999, employees from different sectors attended AS/400-programmer training sessions, developed jointly by the Victoriaville College and the CTC. Through its association with the Sherbrooke College, in 1998-1999, the CTC also instituted a full-time program to pair interns with supervisors, in order to ensure that training is firmly rooted in Cascades' workplace reality.

11,800

employees



Common Purpose: Success. Consistent with its management philosophy based on respect, Cascades strives to create a corporate environment that provides staff with both satisfaction and enrichment on a professional level. Each employee is valued, and every step possible is taken so that individuals' contributions are known and recognized. As a result, the Group can count on employees who are motivated and committed to its success. In addition, management has always maintained a simple and flexible organizational structure, thereby remaining accessible to the workforce. As entrepreneurial partners, employees participate in a profit-sharing system, which serves to foster both a sense of belonging and personal responsibility. Through its concerted and comprehensive training initiatives, Cascades also ensures that employees develop within the Company while keeping pace with technological change.

150

networked professionals

Online and on Target. Consistent with the key role which innovation has always played in its development strategy, Cascades is firmly committed to taking advantage of the new opportunities offered by the Internet. Underscoring its determination to harness the development potential of the Internet, in fiscal 1999, Cascades created a new position, Vice-President of Information Technology, with its holder reporting directly to the President and Chief Executive Officer. In addition, the Group currently employs a total of 150 information-technology professionals at its different units. In the near future, the Company will make its various product catalogues and a direct purchasing system available online, along with an expanded range of e-commerce services.



114

operating units

Improvement, Optimization, Profitability. Since its inception 35 years ago, the Cascades Group has established a firm presence in North America and Europe through an acquisition strategy backed by a solid pool of expertise. From the beginning, Cascades stood out for its ability to improve, optimize and turn around newly acquired businesses. In 1982, Cascades accelerated the pace of its expansion across Canada and the United States by means of an initial public offering. In 1985, the Company set up operations in Europe under the subsidiary Cascades S.A. The Group carried out two major acquisitions in 1992, Rolland Inc. (fine papers) and Paperboard Industries Corporation (boxboard), followed by its purchase of Perkins Papers Ltd. (tissue papers) and Boralex Inc. (energy), three years later. In 1997, Cascades merged its containerboard operations with the Domtar packaging division, creating Norampac Inc., the largest producer of containerboard in Canada.

Canada: 87 units
United States: 15 units
Europe and elsewhere: 12 units



32

mills involved in research

A Driving Force for Innovation and Excellence. For several years now, the Cascades Research and Development Centre (RDC) has recorded sustained growth in its results. In fact, in 1999, the Centre invested 7% of its total payroll in targeted training programs—as other private research centres across Canada faced downsizing. Encompassing 32 group mills, the Applied Research Consortium on Wet Chemistry is the world's largest technological hub in the pulp and paper industry. In 1999, the information derived from the Consortium's work yielded direct savings of more than \$1.5 million in operating costs at various mills. In addition, process engineering and paper bleaching projects at the RDC generated direct savings of \$2.5 million and \$0.5 million respectively. In order to ensure the proper conservation of its knowledge base, the Centre also set up a knowledge-management task force whose mandate includes implementing an archiving system. The RDC has also proven its value as a key asset in human-resource development, with a number of research scientists recruited and trained through the Centre today holding key positions within the Cascades Group.

9.136





Ultrafiltration unit, with 544 tubular membranes installed at the Papier Kingsey Falls uncoated paperboard manufacturing mill, to treat white water by removing excesses so it can be reused in the process.

4 essential elements

Continuing Strides. Under its continuous improvement program established in 1997, Cascades has achieved ever greater focus in targeting its environmental objectives: decreasing water consumption at its mills, reducing waste at the source, controlling atmospheric emissions, reclaiming discharge and preserving soil quality. As a result, in 1999, average consumption of water used in operations at our pulp and paper mills fell below 20-m³ per ton of finished products, compared with the 65-m³-per-ton Canadian industry average. In addition, we recycled more than 2,000,000 tons of paper and board, along with more than 1,500 tons of plastic. Overall, in 1999, our environment-related investments reached a total of \$15 million. Consistent with the role we have always played in tackling environmental protection issues, Cascades remains an undisputed leader in its field.

3

operational sectors

Packaging Products:

Cascades Inc.
(specialty products)
Norampac Inc.
(containerboard)
Paperboard Industries
International Inc.
(boxboard)

63% of consolidated net sales

Cascades manufactures high-quality and innovative packaging products, which include uncoated paperboard, kraft papers, plastic and moulded pulp products. Norampac is the largest producer of containerboard in Canada and the 10th largest in North America. Paperboard Industries International is the largest manufacturer of boxboard in Canada, 9th largest in North America and 4th largest in Europe.

Fine Papers:

Rolland Inc.

26%

Rolland Inc. is one of Canada's leading manufacturers of high-end coated and uncoated fine papers, and the second largest distributor of fine papers, graphic arts supplies and related products in Canada. The Corporation also operates a sophisticated de-inked pulp plant, supplying its own operations as well as other North American producers.



Tissue Papers:

Perkins Papers Ltd.

11% of consolidated net sales

Perkins is the largest producer of tissue papers in Quebec and the second largest in Canada (bathroom tissue, paper towels, facial tissue, paper napkins and paper hand towels). Perkins also manufactures related products such as kraft papers and folding cartons. Perkins tissue papers are made from recycled fibres and rank among the best on the market. Perkins sells its products under its own trademarks—Cascades®, Satin Soft®, Doucelle®, Perkins®, North River®, Horizon® and Decor®—or under private labels.

1 integrated group

Solid and Sustained Profitability

Over the last five years, Cascades has consistently posted returns on shareholders' equity above the North American industry average. The Company's diversified operations have acted as an effective shield against the cyclical nature of the pulp and paper industry. Also contributing to its continued success is the Group's focus on offering value-added products, promoting innovation, and developing niche markets. Cascades is equipped with efficient, modern facilities today. At the outset, Cascades achieved rapid expansion by relying on its ability to optimize newly acquired companies into autonomous profit centres. The Company was thus able to purchase often under-performing operations which no longer met their owners' business objectives, then effectively reposition these facilities for a return to profitability. Cascades has always observed a disciplined capital investment policy, as reflected in a sales to asset ratio exceeding the North American pulp and paper industry average year after year.

14.3%

A return on shareholders' equity
exceeding the North American pulp
and paper industry average
1995 > 1999

7.7%

CASCADES 1995-1999 THE INDUSTRY

FINANCIAL AND STOCK MARKET HIGHLIGHTS

Financial Results

For the years ended December 31
(in millions of dollars, except
per share amounts and ratios)

	1999	1998	Variation
Net sales	2,615	2,527	3%
Earnings before interest, taxes, depreciation and amortization (EBITDA)	309	316	(2)%
Operating income	192	203	(5)%
Net earnings	58	45	29%
per common share	\$ 0.86	\$ 0.67	29%
Cash flow from operations	192	185	4%
per common share	\$ 2.87	\$ 2.77	4%
Capital expenditures	128	227	(44)%
Dividend per common share	\$ 0.10	\$ 0.10	—

Financial Position

As at December 31

Total assets	2,436	2,485	(2)%
Long-term debt	1,055	1,158	(9)%
Non-controlling interest	185	196	(6)%
Shareholders' equity	649	618	5%
per common share	\$ 9.70	\$ 9.24	5%
Stock price	\$ 8.80	\$ 7.80	13%
Number of shares issued and outstanding (in millions)	66.9	66.9	—
Market capitalization	589	522	13%

Financial Ratios

For the years ended December 31

Return on average shareholders' equity	9%	8%	—
EBITDA/Net sales	12%	13%	—
Net sales/Total assets	1.1x	1.0x	—
Cash flow from operations/ Capital expenditures	1.5x	0.8x	—
Net funded debt/Total capitalization*	54%	56%	—

Shipments Summary

For the years ended December 31
(major products; in thousands of metric tons)

Containerboard : Norampac Inc. (50%)	585	544	8%
Boxboard:			
Paperboard Industries International Inc.	743	724	3%
Fine papers and de-inked pulp: Rolland Inc.	299	292	2%
Tissue papers: Perkins Papers Ltd.	185	167	11%

* Net funded debt: long-term debt including current portion plus bank loans and advances, less cash and cash equivalents. Total capitalization: total assets, less accounts payable.

Growth built on excellence and innovation

Cascades outperformed the North American pulp and paper industry average once again in 1999. The Company's net earnings rose to \$58 million or \$0.86 per share, reflecting a 9.1% return on average shareholders' equity. Net sales totalled \$2.6 billion, up from \$2.5 billion in 1998.

Financial results posted in the containerboard and specialty products sectors were particularly impressive in the last fiscal year. In fact, Norampac's success in the containerboard sector offers convincing proof that the December 1997 decision by Cascades and Domtar to create a Corporation equally owned by the two partners was well founded.

Following this merger, considerable efforts were put forth to reduce Norampac's operating costs and increase its productivity. Given the highly satisfactory results that have been achieved, we could be tempted to say Mission Accomplished, but we have no intention of doing so. For the year 2000, we have implemented a \$70 million to \$90 million capital expenditure program that will focus on fitting out a number of mills with new state-of-the-art equipment. This will enable Norampac to obtain greater production flexibility, expand its product offering and improve quality.

In 1999, Cascades' specialty products group once again demonstrated its value as a consistently reliable generator of profitability for the Company. This group increased its net sales by 18% and operating income by 15%, thanks to various ongoing expansion projects combined with solid internal growth, particularly in the converting and building materials sectors. Among other things, this group intensified its presence in Ontario and the United States over the past year, while achieving a breakthrough in Europe.

We are also pleased with the steady growth in our tissue paper sector. In 1999, Perkins Papers succeeded in capturing new market share and thereby increasing its shipments by 11%.

Increased Earning Power

	1999	1998	1997	1996	1995
Total annual production capacity (in thousands of short tons)	3,510	3,450	2,549	2,132	2,140
Share of the capacity attributable to Cascades (in thousands of short tons)*	2,415	2,355	2,048	1,745	1,723
Net earnings (in millions of \$)	58	45	59	85	113
Net earnings per share	\$ 0.86	\$ 0.67	\$ 0.85	\$ 1.37	\$ 1.84

* These numbers represent Cascades' share in the capacity of each of its subsidiaries and affiliates

Since 1995, Cascades Inc. has considerably enhanced the core value and earning power of its assets. That year, which coincided with the last cyclical peak in the pulp and paper industry, gave rise to an exceptional performance for Cascades. Over the four years that followed, the Company invested \$626 million in new capital assets, while also completing several acquisitions and an important merger. These strategic investments not only bolstered the production capacity directly attributable to Cascades by 692,000 tons, or 40%, but they also outfitted the Company with a modern, flexible industrial infrastructure capable of producing at even lower cost. As a new upward cycle begins in the pulp and paper industry, Cascades therefore has a much greater leverage to effectively meet growing demand and thereby increase both its market share and profit margins.

Cascades Inc. Stock Performance

from January 31, 1998 to December 31, 1999

Jan-98 \$10.08	Feb-98 \$9.80	Mar-98 \$10.75	Apr-98 \$11.30	May-98 \$10.90	June-98 \$10.30	July-98 \$10.10	Aug-98 \$7.00	Sept-98 \$8.25	Oct-98 \$7.75	Nov-98 \$8.55	Dec-98 \$7.80
Jan-99 \$7.65	Feb-99 \$7.55	Mar-99 \$8.25	Apr-99 \$9.05	May-99 \$8.65	June-99 \$8.80	July-99 \$9.70	Aug-99 \$9.60	Sept-99 \$9.75	Oct-99 \$9.90	Nov-99 \$9.00	Dec-99 \$8.50

Stock Market Information

		Shares issued and outstanding as at December 31, 1999	Public float as at December 31, 1999	Trading volume 1999	High 1999	Low 1999	Closing December 31, 1999	Dividend per share 1999	Dividend yield
CASCADES INC.	CAS	66,902,210	36,182,490	8,860,000	\$10.25	\$7.50	\$8.80	\$0.10	1.1%
Public Corporations									
Paperboard Industries International Inc.	PI	46,439,682	13,413,716	2,895,906	\$ 3.10	\$1.95	\$2.10	-	-
Rolland Inc.	RL	22,934,815	6,120,880	1,357,760	\$ 6.65	\$5.25	\$5.50	\$0.12	2.2%
Perkins Papers Ltd.	PKW	42,578,769	10,991,115	1,819,931	\$ 7.50	\$5.60	\$6.00	\$0.12	2.0%
Boralux Inc.	BLXA	19,397,018	5,811,914	991,859	\$ 4.45	\$3.15	\$3.60	-	-

Common shares of Cascades Inc., Paperboard Industries International Inc., Rolland Inc., Perkins Papers Ltd. and Boralux Inc., trade on the Toronto Stock Exchange.

LAURENT LEMAIRE

President and Chief Executive Officer
Cascades Inc.

Growth built on excellence and innovation

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We are also pleased with the steady growth in our tissue paper sector. In 1999, Perkins Papers succeeded in capturing new market share and thereby increasing its shipments by 11%.

Despite the downward pressure exerted on its profit margins by a sharp rise in the cost of recycled fibre, this subsidiary continued to significantly contribute to Cascades' profitability. In 2000, Perkins will complete the final elements of a \$120 million three-year capital expenditure program that will have increased its production and processing capacity by one-third, while enhancing the flexibility and quality of its operations. Capitalizing on its solid balance sheet, it will strive to consolidate its position in the North American market through acquisitions and innovation.

In the fine papers sector, after a difficult start, Rolland ended the last fiscal year on a very positive note. This subsidiary was able to take full advantage of the gradual firming up of selling prices by building upon the added value of its product mix. The Distribution Division, in particular, achieved an exceptional performance in 1999, reaping the rewards of the efforts made in recent years to expand its network across Canada and optimize its operations. Fiscal 2000 looks highly promising for Rolland, which expects to record one of its best years ever.

In the energy sector, the past year marked a period of strong expansion for our affiliate Boralex, which increased its installed production capacity by 41% while its net earnings grew more than tenfold.

Our subsidiary operating in the boxboard sector, Paperboard Industries International, was the only group that adversely affected Cascades' consolidated results in 1999. Despite profitability gains at several mills, especially in Europe, this group's performance was strongly affected by challenging market conditions and a more difficult than expected start-up at the new FjordCell kraft pulp mill in Jonqui re. A cost-reduction program has been implemented throughout the Corporation, and we firmly intend to take all additional measures needed to bring this subsidiary to a satisfactory level of performance. Combined with a gradual improvement in market conditions, we are confident that these measures will enable Paperboard to return to profitability during fiscal 2000.

Consistent profitability

Cascades' consistently solid profitability over the years is undoubtedly the best measure of the success of our diversification strategy, which enables the Company to put up an effective defense against cycles in the pulp and paper industry. We have diversified our operations while securing a dominant position in each of our specific markets, focusing on the manufacture of innovative value-added products. In this regard, our various subsidiaries can count on the invaluable support of the Cascades Research and Development Centre.

We could not talk of success at Cascades without a clear and disciplined investment policy. Through judicious use of our capital, we generate more revenues per dollar of assets than the average in the North American pulp and paper industry.

Cascades' strength also lies in the quality and commitment of its personnel. We are particularly proud of the Cascades Training Centre which enables employees to acquire new skills every year. Our profit-sharing program, for its part, is a concrete means of recognizing our employees' vital contribution to the Group's success, while encouraging their sense of belonging and responsibility. Motivated employees cannot fail to contribute to increasing the Company's productivity and, as a result, its profitability.

An organization on the cutting-edge of its industry

Today, Cascades is an organization on the cutting-edge of its industry, capable of taking full advantage of the favourable economic climate now prevailing in North America. What's more, European and Asian economies are starting to pick up and should continue to improve in the coming months.

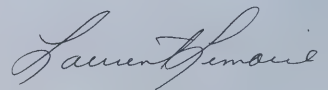
Coupled with this favourable economic environment, the pulp and paper industry has entered a period of consolidation in recent years, marked by several mergers and acquisitions. Moreover, producers do not

hesitate to close their non-profitable manufacturing units. Over the next three years, production capacity in our industry is expected to grow at an annual rate of less than 1% in North America, which is significantly lower than the rate of increase in demand.

In addition, our Company should benefit from the growth of Internet and e-commerce related business. As electronic commerce depends on home delivery systems, the development of this activity will increase the need for packaging products, which currently account for more than 60% of our total sales.

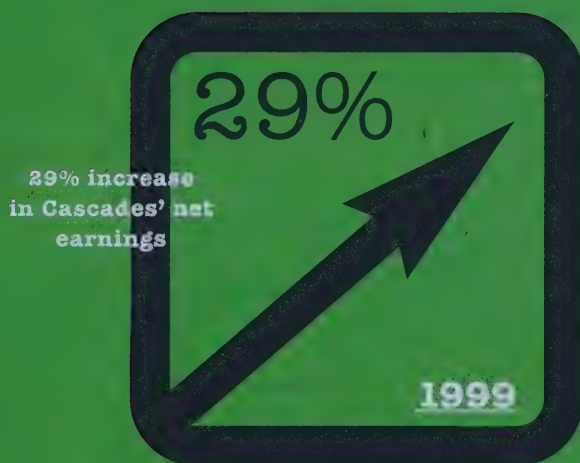
To sustain its growth, Cascades will remain on the lookout for new acquisition or partnership opportunities. The Company's different sectors all offer considerable potential for expansion, especially in the United States. We believe that the consolidation trend in the pulp and paper industry will continue this year, as a result of which the context will remain favourable to mergers or acquisitions.

Cascades therefore enters the new millennium with renewed confidence and optimism. We are convinced that fiscal 2000, and the following years, will give rise to important new successes for Cascades, for the benefit of our shareholders.



LAURENT LEMAIRE

President and Chief Executive Officer
Cascades Inc.



Sustained profitability

Again in 1999, Cascades Inc. reported solid profitability. Net earnings reached \$58 million compared with \$45 million the previous year, a 29% increase. Net sales amounted to \$2.6 billion in 1999, up \$88 million or 3.5% over 1998 figures.

REVIEW OF OPERATIONS
PACKAGING PRODUCTS

Cascades Inc.

SPECIALTY PRODUCTS

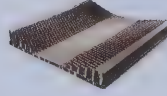
NET SALES: \$442 MILLION

NUMBER OF EMPLOYEES: 2,474

OPERATIONS: PRODUCTION AND CONVERTING OF UNCOATED PAPERBOARD, PRODUCTION OF KRAFT PAPERS, PLASTIC AND MOULDED PULP PRODUCTS, BUILDING MATERIALS, RECYCLING AND DE-INKING OF PAPER AND BOARD, CORPORATE SERVICES

Strong growth in market share

Cascades' specialty products group posted excellent results in 1999, with significant increases in market share for most of its operational sectors, especially in Ontario and the United States. Operating income for Cascades' privately-owned operations amounted to \$45 million in fiscal 1999, compared with \$39 million in 1998, a pronounced increase of 15%. Net sales reached \$442 million in 1999 compared with \$375 million the previous year, an 18% increase.



Converting: Heightened Performance

In the converting sector, sales increased nearly 18% in 1999 over the preceding year, while net earnings rose close to 24% during the same period.

Contributing to this solid performance, sales of honeycomb-paperboard packaging products soared more than 60% in 1999, due in particular to substantial gains in Quebec and Ontario markets. To sustain this sector's strong growth, a new plant will be built in the Greater Toronto Area, which will ensure improved service in the local market. The project will require a short-term investment of approximately \$1.5 million.

During fiscal 1999, major restructuring was successfully carried out at the Cascades Sonoco facility in Richmond, Virginia, in order to improve product quality as well as operational efficiency and profitability. In addition, a new extrusion unit was successfully commissioned at the Cascades Sonoco mill in Tacoma, Washington.

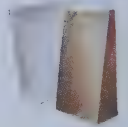
At the end of 1999, a new European converting unit also came on-stream and is expected to achieve full operational momentum during the third quarter of 2000. The facility specializes in the manufacture of packaging products for the pulp and paper industry.



Uncoated Paperboard: Productivity Gains

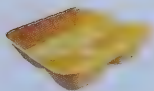
Despite the increased cost of raw materials, the Kingsey Falls Paper Division maintained high profit margins in 1999 through improved efficiency and a partial transfer of cost increases to customers. The facility specializes in the production of uncoated paperboard.

During fiscal 2000, \$2.5 million in capital investments will be carried out at the Kingsey Falls mill, including the installation of a new sifting system to allow the use of more varied grades of fibre in manufacturing.



Kraft Papers: Diversification and Record Production Levels

While reaching record production levels, the Cascades East Angus mill in East Angus, Quebec, also diversified its product line in 1999. During the year 2000, the facility will undertake an investment program worth nearly \$10 million to install a new dryer section. The project is to be completed in 2001.

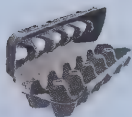


Plastic Products: Higher Results and Diversification

The plastic products sector recorded good performance in 1999, with a sharp increase in sales and considerable improvement in its profitability. The sector also achieved greater diversification by launching new products and by increasing its share in different markets, especially in the United States. In this sector, net sales rose 22% in 1999.

In addition, more than \$1 million was invested in the installation of a new extrusion line at the Re-Plast Division in Notre-Dame-du-Bon-Conseil, Quebec, leading to a 30% increase in production capacity. The facility manufactures street furniture as well as recycled-plastic panels and beams.

In fiscal 2000, an investment of \$1 million will be carried out at the Plastiques Cascades plant in Kingsey Falls, in order to increase packaging automation and expand production capacity by 20%.

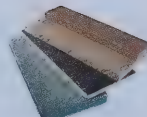


Moulded Pulp Products: Stronger Positioning

Despite difficult market conditions, the moulded pulp products sector strengthened its positioning in 1999, recording increased sales while maintaining sound profit levels. In addition, the sector launched sales and distribution operations on the United States West Coast, in order to service national customers in the egg and poultry industry more effectively.

The moulded pulp products sector also recorded good performance in the fast-food industry with increased sales of its four-cup carriers in 1999. As well, the sector expanded its customer base over the year by developing additional distribution networks.

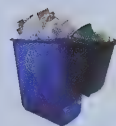
In fiscal 2000, the sector plans to pursue its expansion in the United States, in both the egg and poultry industry and specialty packaging market.



Building Materials: Excellent Performance and Strategic Acquisition

One of the highlights of 1999 in the building materials sector was the acquisition of the Cascades Sainte-Marie mill in Boissylle-Châtel, France, which complements the Cascades Lupel facility, in Cap-de-la-Madeleine, Quebec. Both mills specialize in the production of floor-covering backing paper, while offering a range of complementary products. At once, the Cascades Sainte-Marie acquisition not only made Cascades the most important independent producer worldwide in this specialized niche, but also brought about important synergies within the building materials sector. In September 1999, joining the forces of the two facilities helped secure a major long-term contract to supply the firm Domco-Tarkett with floor-covering backings, which enabled Cascades Lupel to increase the utilization rate of its mill's capacity.

For its part, Matériaux Cascades in Louiseville, Quebec, benefited from sustained demand throughout fiscal 1999. The unit achieved significant sales breakthroughs in the Ontario and United States markets in particular. As well, Bédard Cascades maintained the same level of results as in 1998, despite highly competitive market conditions.



Recycling and De-inking: Major Progress

Restructuring initiatives carried out by the Company in its recycling operations over recent years paid off in 1999, with operations in the sector reporting profitability.

Furthermore, the Cascades Auburn Fiber mill, at Auburn, Maine, recorded solid growth in de-inked pulp production over the year. Acquired by Cascades in June 1998, the mill was certified as a qualified supplier for the majority of fine-paper and tissue-paper producers in Quebec and the Eastern United States.

In addition, sales and profits at Désencrage C.M.D. in Cap-de-la-Madeleine, Quebec, exceeded the Company's expectations in 1999. Pulp quality also improved significantly as a result of upgrades to the cleaning and straining systems at the mill.

REVIEW OF OPERATIONS
PACKAGING PRODUCTS

Norampac Inc.

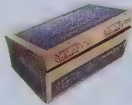
NET SALES: \$925 MILLION

NUMBER OF EMPLOYEES: 3,887

OPERATIONS: PRODUCTION OF LINERBOARD AND CORRUGATING MEDIUM, CONVERTING OF CORRUGATED CONTAINERS FOR PACKAGING, DISPLAYS AND OTHER PRODUCTS

Effort is rewarded

In the containerboard sector, Norampac Inc. recorded markedly improved financial performance in 1999. Aided by more favourable conditions, the Corporation began to benefit from initiatives carried out since its inception in December 1997, in order to reduce costs and increase productivity. In fiscal 1999, Norampac posted net earnings of \$37 million, compared with a net loss of \$5 million the previous year. Net sales reached \$925 million, compared with \$889 million in 1998. Factors behind the strong rise in profitability in 1999 included enhanced productivity and cost reductions, as well as an improvement in market conditions. As a result, Norampac facilities operated at full capacity in 1999, with several plants reaching record production levels. In addition, 16 out of Norampac's 18 box plants posted record profits.



Reducing Operating Costs: An Ongoing Priority

Originally created by the merger of the Domtar and Cascades containerboard operations, Norampac is continually engaged in efforts to reduce its operating costs and increase productivity. As a result, Norampac's management, headed by Cascades Inc., carried out a thorough review of operations at the Corporation's various production facilities in order to ensure that each unit plays an optimal role within the new entity. Furthermore, in order to improve its supply conditions, Norampac renegotiated agreements with several key suppliers.

Multiple Investments

Among investments completed in 1999, a new de-inking unit was installed at the Norampac Avot-Valée S.A. facility in Blendeques, France, at a cost of \$2 million. At the Red Rock, Ontario mill, a \$4.5 million project was completed in order to install a new high-performance odour-control system.

As for its corrugated container operations, the Corporation invested \$5 million to equip the Drummondville plant with a more modern corrugator. Investments of \$6 million were also carried out in order to purchase two new presses, at the Vaudreuil, Quebec, and Mississauga, Ontario, plants. Finally, a new laminator was installed at the Lithotech Division plant in Scarborough, Ontario, at a cost of \$2.3 million.

In fiscal 2000, Norampac will invest \$70 to \$90 million in new capital assets in order to improve equipment flexibility as well as the variety and quality of its products. In addition, the Corporation will keep a close watch on acquisition opportunities, particularly in the United States.

Renewed Commitment

With regard to its human resources, Norampac held a major symposium in October 1999 for managers from its different production units. The 150 participants who attended the event had the opportunity to discuss and share opinions regarding Cascades' management philosophy based on decentralization, personal responsibility and individual respect.

A Good Year Ahead in 2000

In fiscal 2000, the containerboard sector should continue to benefit from balanced supply and demand in North America, where Norampac achieves almost all of its sales. In addition, the wave of consolidation currently underway in the containerboard sector in the United States will further reinforce industry stability. Additional selling-price increases should also take effect during the year, yielding a positive impact on Norampac's profitability.

REVIEW OF OPERATIONS
PACKAGING PRODUCTS

Paperboard Industries International Inc.

NET SALES: \$766 MILLION

NUMBER OF EMPLOYEES: 2,608

**OPERATIONS: PRODUCTION OF BOXBOARD,
CONVERTING OF FOLDING CARTONS,
PRODUCTION OF BLEACHED KRAFT PULP**

Promising achievements

In fiscal 1999, Paperboard Industries International Inc. commissioned two new facilities, carried out an important capital investment at its mill in Arnsberg, Germany, and introduced a program aimed at reducing overall operating costs. These various initiatives were achieved in spite of difficult market conditions. Due to this challenging context and a \$3 million loss resulting from the start up of the FjordCell kraft pulp mill at Jonqui re, Paperboard recorded a net loss of \$14 million in 1999, compared with a net loss of \$13 million in 1998. Net sales amounted to \$766 million in 1999 compared with \$780 million the previous year, mainly due to the sale of the fluff pulp mill Tartas S.A., in France.



Successful Start Up

The January 1999 commissioning of the new Hebron, Kentucky, folding carton converting plant was a complete success. Built at a cost of \$14 million, the new production unit began to register net profits as early as May 1999. The Hebron facility, which dedicates a share of its production to supply Kellogg, also provides Paperboard with an additional base from which it will develop new markets in the United States.

Outstanding Pulp Quality

During 1999, Paperboard also commissioned the new FjordCell kraft pulp mill at Jonqui re, Quebec. The facility, which is partially integrated with Paperboard's Jonqui re boxboard mill, produces pulp from softwood shavings and chips from northern Quebec. The pulp ranks as the best in its category in Canada.

Major Investment and Record Production Levels at Arnsberg

In July 1999, the Corporation completed a \$5 million investment at its boxboard mill located in Arnsberg, Germany. The project involved the installation of a new shoe press that increased production capacity by 10%. In addition, backed by a recovery in European boxboard demand, the investment has enabled Arnsberg to reach record production levels in recent months.

Strategic Divestiture

In order to focus on its core operations, on October 1, 1999, Paperboard sold its 50% interest in Tartas S.A. Due to its vocation as a producer of fluff pulp for special uses, the facility offered no possibilities for synergies with Paperboard's other operations.

Tembec purchased the interest held by Paperboard for a consideration of \$35 million. An additional amount of \$10 million could also be paid over the three years following the sale, depending on the mill's profitability. Paperboard and Tembec had jointly acquired Tartas S.A. in 1994 at a minimal purchase price.

Important Cost- Reduction Program

At the end of 1998, Paperboard introduced an important program aimed at reducing its operating costs. By the end of 1999, such initiatives had already yielded annual cost savings totalling \$12 million. The objective is to further reduce costs by an additional amount of \$8 million by the end of fiscal 2000.

Improved Market Conditions in 2000

Paperboard expects improved market conditions in 2000. Recovery in Asia and strong economic performance in North America and Europe will create a favourable economic climate from which Paperboard should benefit. Demand at the Corporation's boxboard mills and converting plants should strengthen in 2000, leading to new price increases and improved profit margins.

REVIEW OF OPERATIONS
FINE PAPERS

Rolland Inc.

NET SALES: \$707 MILLION

NUMBER OF EMPLOYEES: 1,751

OPERATIONS: PRODUCTION AND CONVERTING OF UNCOATED AND COATED FINE PAPERS, DISTRIBUTION OF FINE PAPERS, GRAPHIC ARTS MATERIALS AND OTHER RELATED PRODUCTS, PRODUCTION OF DE-INKED PULP

Consolidation and optimization

During fiscal 1999, Rolland Inc. succeeded in consolidating its operations, which in turn enabled it to fully benefit from investments carried out in its various units. Rolland, which is now making optimal use of both its equipment and staff, posted net earnings of \$15 million in 1999, compared with \$19 million the previous year. Net sales reached \$707 million in 1999, compared with \$671 million one year earlier, an increase of 5%. The decline in net earnings for 1999 can be attributed to two main factors. First, the fine paper industry as a whole experienced difficult market conditions at the beginning of the year. Second, Provincial Papers' production levels were temporarily reduced in 1999, following the introduction of a program aimed at improving operations and accelerating the development of new value-added products. This program will enable the mill to generate long-term increases in profitability. Additional investments of nearly \$5 million were also made at Provincial Papers over the last two fiscal years in order to optimize the operations of this mill.

Fine Papers: New Automated Systems

Last year, the Fine Papers Division completed a \$5 million modernization program launched at the St. Jerome mill in 1998, in order to implement new automated production systems. Its sales and marketing group was also strengthened in 1999 to back the Division's development plan. The objective of the Fine Papers Division is to increase its market share for value-added products in both Canada and the United States.

Distribution Division: Outstanding Turn Around and Strong Profitability

The Rolland Distribution Division posted excellent results in 1999, thereby contributing substantially to the Corporation's net earnings. In fact, each Graphic Resources distribution centre registered an increase in its profitability over the previous year.

Several initiatives were carried out in 1999 to enhance the strategic positioning of the Division, which included streamlining product lines and developing a better-targeted customer base.

RCDC: Making Customer Service a Priority

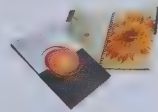
As forecast, the new Rolland Conversion and Distribution Centre (RCDC) contributed to Rolland's operating income in 1999. Among its priorities for fiscal 2000, the Centre intends to improve customer service by decreasing delivery time, as well as to expand its external customer base for converting activities.

Higher Sales at Breakey Fibres

In 1999, Breakey Fibres (formerly Désencrage Cascades Inc.) benefited from increased demand and higher selling prices for de-inked pulp, leading to improved net sales. However, these increases were offset by a sharp rise in the cost of recycled fibres. An amount of \$1 million was invested for the installation of new screen aimed at improving the quality of its pulp.

Outlook 2000

Forecasts for fiscal 2000 are favourable in this sector. Markets in both North America and Europe should strengthen, while recovery in Asia is set to intensify over the course of the year. In addition, selling prices in the fine paper sector are expected to rise sufficiently to cover foreseeable increases in the cost of raw materials. As a result, Rolland should be able to fully benefit from the positive economic climate in 2000, while focusing on the manufacture and marketing of value-added products.



REVIEW OF OPERATIONS
TISSUE PAPERS

Perkins Papers Ltd.

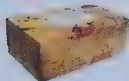
NET SALES: \$290 MILLION

NUMBER OF EMPLOYEES: 956

OPERATIONS: PRODUCTION AND CONVERTING
OF TISSUE PAPERS, PRODUCTION OF FOLDING
CARTONS AND KRAFT PAPER BAGS

Profitable expansion

Again in fiscal 1999, Perkins Papers Ltd. achieved strong growth in its operations which enabled it to increase its market share in both Canada and the United States. In 1999, total shipments rose 11% over the previous year. Despite increased shipments, Perkins posted slightly lower profits than in 1998, due to higher depreciation expenses resulting from recent investments and, above all, to the rising cost of raw materials. Net earnings for the year stood at \$22 million compared with \$27 million in 1998. Net sales reached \$290 million in 1999, compared with \$267 million the previous year.



Two Strategic Investments

Perkins carried out two major investments in 1999. First, \$12.5 million was invested at Lachute, Quebec, in order to relocate its Folding Cartons Division to a new plant in September 1999. New equipment was also installed, while existing machinery was modernized. This facility will further enable the Corporation to consolidate its strategic market position in the fast food industry.

The second investment, which was launched in August 1999, consisted in the acquisition of a new recycled-fibre tissue paper machine at the Rockingham, North Carolina mill. Acquisition and installation of the new machine, with a 30,000-short-ton production capacity, will represent a total investment of \$36 million.

The Rockingham project, to be completed in the second quarter of fiscal 2000, is the final stage of the three-year capital investment program launched by Perkins in 1997 to support its expansion strategy. When the program is finalized, Perkins will have invested a total of \$120 million to increase its manufacturing capacity by 31% and converting capacity by 34%.

Customer Service: The Key to Success

In recent years, Perkins has established an enviable reputation as a first-rate North American producer. As its service objective, the Corporation aims to meet or exceed the expectations of all customers, all of the time, under all circumstances.

Accordingly, every employee in the group is called upon to ensure that Perkins' products are always accessible and reliable, particularly with regard to distribution and delivery deadlines.

Taking Advantage of Consolidation in the Food Industry

In the retail market, Perkins plans to reinforce its presence in the private-label segment in Canada and the United States in fiscal 2000. With the wave of consolidation currently underway in the North American food industry, major grocery chains can be expected to focus on upgrading their product lines. Perkins has established a solid reputation as a manufacturer of private-label products, and plans to take advantage of the trend. The Corporation will also work to strengthen the positioning of its own brands in both Canada and the United States.

In the commercial and industrial market, Perkins intends to consolidate its leadership position in Canada. In particular, it will focus on strengthening its presence in the fast food industry and on expanding its markets in Western Canada. Emphasis will also be placed on developing a greater number of national accounts. In the United States, expansion will continue to target the development of major regional accounts, particularly in the fast food sector.

Outlook

The balance between supply and demand should be maintained in fiscal 2000. As a result, outlook remains positive for the tissue paper industry, despite temporary pressure caused by the lag between increases in fibre costs and selling prices. Perkins intends to optimize its equipment and further develop its human resources in the coming year. The Corporation will also search for potential acquisitions, especially in the United States, where the growth potential is particularly attractive.

REVIEW OF OPERATIONS
ENERGY

Boralex Inc.

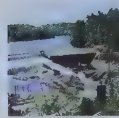
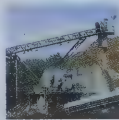
SALES: \$65 MILLION

NUMBER OF EMPLOYEES: 96

OPERATIONS: PRODUCTION OF HYDROELECTRIC AND THERMAL ENERGY (FROM WOOD RESIDUES OR NATURAL GAS)

Growth and profitability through expertise

Backed by its solid pool of expertise, Boralex Inc. achieved accelerated expansion during its fiscal year ended September 30, 1999, while increasing its profitability tenfold. In a little more than one year the Corporation more than doubled its installed production capacity, from 62 MW to 158 MW at the end of the fiscal year. Revenues rose 149% to \$65 million in fiscal 1999, compared with \$26 million the preceding year. Net earnings reached more than \$5 million in 1999, compared with \$0.4 million in 1998. High water levels in Quebec and rising electricity prices in the Northeastern United States market, in particular, had a positive impact on profitability.



Expansion and Diversification

Boralex achieved rapid expansion by acquiring three wood-waste power plants, one of which is located in Quebec and two in the United States.

In January 2000, Boralex also purchased an additional wood residue-fired thermal plant in Athens, Maine, in the United States. With these acquisitions, Boralex increased its installed capacity to 174 MW by the beginning of fiscal 2000, for a total investment of \$107 million.

Today the Corporation is better diversified in its means of energy production, thereby benefiting from greater revenue stability on a quarterly basis. Furthermore, Boralex achieved broader geographic diversification by consolidating its operations in the United States while integrating solid expertise in the area of wood-residue cogeneration and thermal production, in which it now ranks among the most important producers in North America.

Other Development Projects

Aside from future acquisitions, a major power-station building program is integral to Boralex's development plan. These projects should be completed by the end of fiscal 2001 and will add nearly 200 MW to consolidated installed capacity.

Among such initiatives, Boralex will build a 30-MW thermal power station, at a cost of \$50 million, at Senneterre, in the Abitibi region of Quebec. Construction on a 20-MW wood-residue cogeneration power station at Cabano, Quebec, could also begin in fiscal 2000. The project will require an investment of \$43 million.

As well, this year Boralex will start construction on a 15-MW natural-gas-fired cogeneration plant at Blédecques, France, to be located on-site at a mill owned by Norampac. The project will be carried out jointly with Industélec Services, a subsidiary of Électricité de France (EDF).

Outlook

In fiscal 2000, electricity-market conditions should remain favourable in the Northeastern United States. In Quebec, Boralex owns nine electrical power stations and benefits from several long-term electricity purchase agreements.

The Corporation has reached critical mass that will enable it to enhance its positioning in the process of deregulation currently underway in North America's electricity markets.

In addition, Boralex will continue to watch closely for any new acquisition opportunities which are compatible with its development strategy. At the same time, it will dedicate special attention to ensuring that its values are shared by the employees in place at its recent acquisitions.

1.1x

A judicious use of capital
Cascades generates more dollars of sales
per dollar of assets than the North
American pulp and paper industry average
1995 > 1999

0.8x

CASCADES  THE INDUSTRY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS AND FINANCIAL POSITION

Prior Comments

Cascades Inc. is a conglomerate which comprises, aside from its own pulp and paper manufacturing, converting and marketing operations as well as related corporate services, majority interests in three publicly-traded subsidiaries: Paperboard Industries International Inc. (71% of common shares), Rolland Inc. (73% of common shares) and Perkins Papers Ltd. (74% of common shares). Cascades also owns 50% of the shares of the private company Norampac Inc. Finally, Cascades' affiliates include Boralex Inc., a publicly-traded corporation in which Cascades holds 45% of the Class A shares directly, and 27% through a trust.

In addition to commenting on the consolidated financial statements of Cascades Inc. as presented on pages 37 to 49 of this annual report, the following discussion and analysis provides condensed supplementary financial information, where the publicly-traded subsidiaries and Norampac are accounted for on an equity basis, in order to isolate the results and financial structure of Cascades' privately-owned operations. In Management's opinion, this allows for a better understanding of the value of Cascades' assets, its capital structure, the sources of its net earnings and cash flow, as well as the use of its financial resources. Finally, this section includes a detailed discussion of the performance of Cascades' privately-owned operations and a brief financial analysis for each of the publicly-traded subsidiaries and the affiliate Norampac.

For a more detailed analysis of the results and financial position of the publicly-traded subsidiaries, the reader is invited to consult these corporations' annual reports for their fiscal year ended December 31, 1999, which may be obtained upon request from either the companies in question or Cascades' Corporate Secretary.

Business Environment

In 1999, strong economies in North America, improving economic conditions in Europe and a recovery in Asia led to a vigorous growth in demand for products manufactured by the Cascades Group's entities. On the supply side, global growth was relatively modest due to a rationalization of production capacity among North American manufacturers and stricter inventory management throughout the pulp and paper industry. As a result of faster-growing demand in relation to supply, the industry witnessed sharp increases in virgin pulp and recycled fibre prices which, in some sectors such as boxboard and tissue paper, were not immediately offset by similar increases in selling prices. In the containerboard and fine papers sectors, however, selling-price increases largely compensated for higher costs of raw materials.

In such a context, four factors contributed to a solid financial performance for Cascades Inc.:

- the diversification of its operations, which enabled it to take advantage of a strong recovery in several of its market segments, thereby counterbalancing the impact of temporarily more difficult conditions in others;
- its growing focus on value-added products;
- an increase in shipments resulting from the optimization of investments made over the past two years; and
- a reduction in operating costs in most of the Company's business units.

Consolidated Results

Cascades' consolidated net sales amounted to \$2.6 billion in 1999, compared with \$2.5 billion in 1998. For purposes of comparison, deducting from the 1998 results, the sales of Boralex which is now accounted as an investment on the equity basis, the Company's net sales grew by \$120 million or 4.8%. Since the Cascades Group's industrial structure remained basically the same, this increase can be attributed essentially to internal growth. More precisely it stemmed from growing out shipments for most units, combined with higher selling prices in some sectors, especially containerboard and fine papers.

The contribution of Cascades' different entities to consolidated net sales growth can be broken down as follows:

- a \$36 million increase in sales for Rolland Inc., resulting mainly from higher selling prices and the greater contribution of value-added products;
- a \$35 million (\$67 million excluding Boralex) increase in sales for the specialty products group, attributable to strong demand in several sectors and expansion achieved in 1998;
- a \$23 million increase in sales for Perkins due to an 11% rise in shipments; and
- a \$18 million increase in our share in the sales of Norampac, which benefited from a solid growth in shipments coupled with higher selling prices.

Paperboard's net sales decreased by \$14 million as a result of a slowdown in shipments in North America, lower average selling prices than the previous year and the sale of its interest in Tartas S.A.

Cascades' earnings before interest, income taxes, depreciation and amortization (EBITDA) amounted to \$309 million, compared with \$316 million in 1998 (\$303 million when excluding the contribution of Boralex). The EBITDA/sales margin went from 11% in 1998 (excluding Boralex) to 12% in 1999. It should be noted that Cascades has posted an average EBITDA margin of 11% over the last 10 years, which compares favourably with the industry as a whole.

In 1999, Cascades' performance mostly benefited from Norampac's exceptional turn around and the solid results of the specialty products group. In fact, Cascades' share in Norampac's EBITDA grew by \$30 million compared with 1998, under the combined effects of favourable market conditions, an important optimization program, as well as major productivity gains and cost reductions. Since its inception in December 1997, Norampac has achieved \$75 million in recurring savings, including \$39 million in 1998 and \$36 million in 1999.

The contribution to consolidated EBITDA of Cascades' privately-owned operations increased by \$8 million, due mainly to the growth of the building materials and converting sectors, as well as a sharp improvement in the performance of the plastic products sector. The combined growth in the EBITDA of Norampac and Cascades' privately-owned operations largely offset the decline in the profitability of our subsidiary Paperboard, faced with difficult market conditions. In addition to a drop in demand during the first half of 1999, this entity was affected by sharp rises in raw material costs, which were not reflected in its selling prices until the very end of the fiscal year. Coupled with various production problems, these factors pushed down this subsidiary's EBITDA by \$25 million.

Although to a lesser degree, the increase in raw material costs also affected Perkins, which posted a \$5 million decrease in EBITDA in 1999. This subsidiary nonetheless maintained high profitability, again ranking among the best-performing companies in the North American tissue paper industry. Lastly, Rolland sustained a \$1 million decline in EBITDA as a result of production changes at one of its mills in the first quarter. The following quarters gave rise to a strong improvement, particularly for the Distribution Division, due in part to a firming up of fine paper selling prices and the optimization of its operations.

In 1999, an aggregate amount of \$4.5 million (compared with \$1 million in 1998) was allocated throughout the Cascades Group with regard to the Y2K compliance issue. The exhaustive work carried out over the past few years by our Year 2000 Committee and employees at the various subsidiaries enabled the Cascades Group to make the transition to the year 2000 smoothly.

Consolidated depreciation and amortization expenses increased by \$4 million in 1999, as a result of the major investments made the previous year. Cascades' consolidated operating income therefore amounted to \$192 million, as opposed to \$203 million in 1998 (\$194 million excluding Boralex).

Cascades' net earnings grew by 29%, rising from \$45 million or \$0.67 per share in 1998, to \$58 million or \$0.86 per share in 1999. Aside from a slight decline in the overall tax rate, this solid growth was fostered by three main factors. First, financial expenses decreased by \$5 million as a result of a \$58 million reduction in total net funded debt during fiscal 1999. Second, our share of results of significantly influenced companies increased by \$4 million, due primarily to Boralex Inc.'s strong performance. Third and last, we incurred an unusual loss of \$3 million in 1999, as opposed to \$15 million in 1998. The unusual loss in 1998 consisted of a fine imposed on Paperboard's European subsidiary. For 1999, it consisted of a \$11 million loss resulting from the definitive closing of an organic felt manufacturing mill in Joliette as well as the closing of a service centre and the write-off of some of Paperboard's assets. This loss was partially offset by a \$8 million gain on the disposal of Paperboard's 50% interest in the Tartas S.A. fluff pulp mill, in France.

The impact of unusual items on net earnings amounted to \$1.5 million or \$0.02 per share in 1999, compared with \$7 million or \$0.10 per share in 1998. Excluding these items, Cascades' net earnings therefore rose 13%, from \$52 million or \$0.77 per share in 1998, to \$59 million or \$0.88 per share in 1999.

Consolidated Changes in Financial Position and Consolidated Financial Position

In 1999, apart from optimizing its assets, Cascades' principal objectives were to maintain tight control over its investments and reduce its debt load. These objectives were largely achieved, since capital expenditures were cut by some \$100 million or 44% throughout the Group, while net funded debt was reduced by \$58 million or 5%.

Cascades' cash flow from operations rose 4% to a total of \$192 million. Of this amount, \$81 million was invested in working capital, due mainly to the increase in business volume and selling prices for most of our units. Capital expenditures went from \$227 million in 1998 to \$128 million in 1999, broken down as follows:

- \$44 million at Perkins, primarily to fit out its new folding carton plant and complete most of its three-year capital expenditure program with the purchase of a tissue paper machine at Rockingham, in the United States;
- \$30 million at Paperboard, allocated mostly to the start-up of the FjordCell kraft pulp mill in Jonquière and the purchase of new equipment at the Arnsberg mill, in Germany;
- \$19 million representing our share in Norampac's investments, aimed at optimizing its containerboard and corrugated container facilities;
- \$13 million at Rolland, mostly to further improve and automate operations; and
- \$22 million in various investment projects related to the expansion and upgrading of Cascades Inc.'s privately-owned operations.

With the exception of Perkins' three-year capital program, most of the investments in 1999 were used to optimize productivity and efficiency rather than increase capacity. In addition, \$13 million was invested to acquire a floor-covering backing plant in France, while Paperboard sold its interest in the Tartas S.A. mill. Overall investment activities in fiscal 1999 therefore required total net cash resources of \$136 million, compared with \$302 million in 1998.

As at December 31, 1999, Cascades' consolidated long-term debt totalled \$1.06 billion, down by \$103 million from the end of the previous fiscal year. It should be noted that only 23% of this amount accrues directly to Cascades, the balance consisting of the long-term debt of the publicly-traded subsidiaries and Norampac, which are without recourse to the parent company.

Still on a consolidated basis, total net funded debt amounted to \$1.12 billion as at December 31, 1999 (compared with \$1.18 billion in 1998), some \$260 million of which accruing to Cascades Inc.'s privately-owned operations. Consequently, the net funded debt to total capitalization ratio was 54% on a consolidated basis (compared with 56% in 1998), but 27% only if the principal subsidiaries and Norampac are accounted for on the equity basis, as autonomous financial entities whose debt is without recourse to Cascades. Cascades Inc.'s debt ratio was therefore well below the target range of 35% to 45% established for the Group as a whole. With the exception of Paperboard which had a debt ratio of 63% at the end of the last fiscal year, the financial structures of Norampac Inc. and our subsidiaries were either in or almost in compliance with this criterion, or better.

Outlook 2000

Fiscal 2000 looks promising in most of Cascades' operating sectors. On the one hand, we will benefit from sustained demand for most of our products due notably to strong economies in North American and an improvement in overseas economies. On the other hand, the overall increase in production capacity in the North American pulp and paper industry is expected to remain below 1% annually between now and 2003, which is much lower than the expected growth in demand. Combined with the industry's ongoing consolidation, the supply/demand balance should enable Cascades' various units to enjoy high capacity utilization rates as well as stable or increasing selling prices.

Consequently, Cascades anticipates an increase in consolidated profitability in the year 2000, which will come mainly from sustained growth by Norampac and the specialty products group, an improvement in results by Rolland, and a turnaround at Paperboard. Aside from more favourable market conditions, the latter should reap the rewards of the streamlining program implemented in 1999 with a view to cutting operating costs by \$20 million annually. Moreover, all of Cascades' constituents will continue to focus on optimizing operations, reducing costs and tightly managing capital expenditures. Coupled with

the expected growth in cash flow from operations, this will enable the Company to reduce its total debt load even further.

Capital expenditures of approximately \$150 million are planned throughout the Cascades Group for fiscal 2000. A large proportion, or between \$35 to \$45 million, will consist of our share in a program to increase operating efficiency and flexibility as well as product quality at Norampac. For its part, Cascades Inc.'s specialty products group will invest \$34 million, among other things to upgrade the East Angus kraft paper mill and to finish fitting out two additional roll and honeycomb paperboard packaging units, the first located in France and the second in Ontario. Some \$30 million will be invested to complete Perkins' three-year capital expenditure program, whereas Paperboard's investments will be reduced to \$25 million, primarily to increase the efficiency of its mills and folding carton plants. Lastly, Rolland will invest approximately \$18 million to further automate and optimize operations.

Finally, the subsidiaries with the healthiest balance sheets, such as Perkins and Norampac, will strive to accelerate their expansion through business acquisitions on the North American continent, as long as they respect our financial and strategic requirements.

Cascades' Privately-Owned Operations: 100%

Prior Comments

The table on page 33 presents a summary of the results, balance sheet and key financial ratios of Cascades Inc., accounting for its publicly-traded subsidiaries and affiliates on the equity basis. Thereby, Cascades' privately-owned operations, which comprise the specialty products group and various corporate services, generated net sales of \$442 million in 1999, up 18% or \$67 million over 1998 figures. Although this increase benefited from the contribution of the new units acquired in 1998 and 1999, it can be credited above all to vigorous internal growth, particularly in the building products and converting sectors, which accounted more than 60% of the growth in revenues. Cascades' privately-owned operations accounted for 21% of consolidated net earnings after unusual items, and for 27% excluding such items. The Cascades Group's other entities contributed \$46 million to consolidated net earnings.

Cascades Inc.

(in this section of the analysis, the principal subsidiaries and affiliates are accounted for on the equity basis)

Condensed Supplementary Financial Statements

For the years ended December 31

(in millions of dollars)

	1999	1998
CONDENSED STATEMENTS OF EARNINGS		
Net Sales	442	375
Cost of sales and expenses	397	336
Operating income	45	39
Financial expenses	18	16
	27	23
Unusual items	(6)	1
	21	24
Provision for income taxes	9	9
Earnings from operations directly owned by Cascades	12	15
Share of results of principal subsidiaries and affiliates		
Paperboard Industries International Inc.	(10)	(9)
Rolland Inc.	11	13
Perkins Papers Ltd.	16	20
Norampac Inc.	27	5
Boralex Inc.	2	1
	46	30
	58	45
Net earnings		
Net earnings per common share	\$0.86	\$0.67
CONDENSED BALANCE SHEETS		
Current assets	154	128
Investments in principal subsidiaries and affiliates at equity	568	545
Capital assets	290	288
Other assets	24	22
Total assets	1,036	983
Current liabilities	106	93
Long-term debt	234	227
Deferred income taxes	41	39
Non-controlling interests	7	6
Shareholders' equity	648	618
Total liabilities and shareholders' equity	1,036	983
KEY FINANCIAL RATIOS		
Net funded debt*/Total capitalization**	27%	27%
EBITDA margin	15%	16%

* Net funded debt: long-term debt including current portion plus bank loans and advances, less cash and cash equivalents.

** Total capitalization: total assets, less accounts payable.

EBITDA for Cascades' privately-owned operations rose 14%, from \$59 million to \$67 million. The EBITDA margin therefore stood at 15% in 1999, compared with 16% one year earlier. This decline can be attributed primarily to our new Auburn Fiber de-inked pulp mill located in Maine, which sustained a sharp rise in raw material costs while it was gradually building its customer base. Moreover, some

sectors had to absorb an increase in the cost of recycled fibre whereas their average selling prices remained relatively stable. However, in most cases, selling prices have begun an upward movement in recent months.

Among our best-performing sectors for the past fiscal year, the most noteworthy includes building materials, where net earnings grew by nearly 70%, as well as converting. In addition, the Récupération Cascades Division and the plastic products sector recorded a distinct turnaround in profitability in 1999, while Désencrage C.M.D. and the Kingsey Falls uncoated paperboard mill significantly increased their earnings. The latter, in particular, continues to post the best profit margins of the entire specialty products group. Finally, despite some pressure on its profit margins, the kraft papers mill operated by Cascades East Angus once again made a very solid contribution to the Group's profitability.

Operating income for Cascades' privately-owned operations grew by 15% to total \$45 million. Financial expenses increased by \$2 million due to a slight rise in net funded debt, associated with the growth of the specialty products group. Net funded debt amounted to \$260 million as at December 31, 1999, for a 27% ratio to total capitalization. In addition, the effective tax rate attributable to Cascades Inc.'s privately-owned operations rose from 45% in 1998 to 49% in 1999, since the Company did not benefit from as important tax benefits as in 1998, relating to the loss carry-forward of some American units. Due to these factors and a \$6 million unusual loss resulting from the closing of the Joliette mill, Cascades' privately-owned operations posted net earnings of \$12 million, compared with \$15 million for the previous year. Excluding this unusual item, net earnings rose 7% to \$16 million.

A total of \$22 million was invested in new capital assets in 1999. Of this amount, \$7 million was used to expand and upgrade the plastic products and converting sectors. Some \$5 million was also used to broaden and improve corporate services, especially the Transportation Division. The balance was spread between various optimization projects throughout the specialty products group.

During fiscal 2000, Cascades' growth should be sustained by strong demand and firm or higher selling prices in most of its sectors. Furthermore, we will benefit all year-long from the contribution of our new floor-covering backing plant in France and, as of the third quarter, the addition of one converting facility in Ontario and one in France. One of our main objectives in 2000 will be to optimize the units acquired or commissioned over the past two years, along with those that will join our various sectors in the next quarters. We will also continue to develop new value-added products in order to expand our market shares and maintain the high, stable profit margins that have traditionally been the hallmark of Cascades' privately-owned operations.

Norampac Inc.: 50%

During the fiscal year ended December 31, 1999, Norampac was able to capitalize on brisk demand and its dynamic sales teams to increase its containerboard and corrugated container shipments by 8% and 5% respectively. Net sales rose 4% to \$925 million in 1999, compared with \$889 million in 1998. The more moderate growth in sales than in shipments can be explained by the sale of four recovery and recycling centres at the beginning of the year. In addition, during the first half of 1999, Norampac's average selling prices were lower than the previous year.

Fuelled by strong demand however, prices started to firm up in the spring of 1999. In addition, the containerboard industry being highly integrated, manufacturers succeeded in rapidly transferring to their selling prices the increases in recycled fibre prices initiated as of the third quarter. In 1999, Norampac therefore benefited from two successive increases in selling prices for linerboard and three for corrugating medium, which were in turn reflected in corrugated container prices. Another increase took effect in February 2000.

EBITDA grew by 56% to reach \$167 million in 1999, compared with \$107 million in 1998. The EBITDA margin thus rose from 12% to 18%. It should be noted that it posted sustained growth for each quarter, reaching 22% in the fourth quarter. This performance, to which almost all of Norampac's manufacturing and converting units contributed, was due in part to the combined increase in shipments and selling prices, but even more to the productivity and efficiency gains achieved throughout the Corporation. These yielded recurring savings of \$36 million in 1999, which came on top of the \$39 million savings implemented in 1998. Coupled with a reduction in interest expenses, the strong growth in EBITDA enabled Norampac to post a net profit of \$37 million, as opposed to a net loss of \$5 million one year earlier. Finally, Norampac reduced its total funded debt by \$82 million, to \$404 million as at December 31, 1999. The net funded debt to total capitalization ratio thus improved from 43% to 36% during the year, which is at the lower end of the Cascades Group's target range.

Norampac began fiscal 2000 with a solid order backlog in both its manufacturing mills and converting plants. In addition, its business environment is expected to remain favourable in the coming year, considering the healthy North American economy and the more rigorous management of inventories and capacity additions now shown by containerboard producers. This context should translate into firm selling prices and superior profit margins, despite the higher average cost of raw materials.

Norampac will pursue its efforts to reduce costs, optimize productivity and expand its range of specialty and value-added products. To that end and banking on the expected growth of its cash flow from operations, it will implement a \$70 million to \$90 million capital expenditure program for fiscal 2000. Designed in two phases so it can be adjusted to market conditions, this program will notably include the relocation of one of the corrugated container

plants to ultramodern facilities in the Toronto area. The Corporation's available cash will be used to further reduce its debt load. Finally, on the strength of its solid balance sheet, Norampac will remain on the lookout for acquisition opportunities, especially in the United States.

Norampac Inc.*

For the years ended December 31

(in millions of dollars)

	1999	1998
FINANCIAL HIGHLIGHTS - RESULTS		
Net Sales	925	889
EBITDA	167	107
Net earnings (loss)	37	(5)
BALANCE SHEET HIGHLIGHTS		
Total assets	1,241	1,260
Total long-term debt	404	486
Net funded debt**	404	486
Shareholders' equity	591	559
Total capitalization***	1,106	1,122
KEY FINANCIAL RATIOS		
Net funded debt/		
Total capitalization	36%	43%
EBITDA margin	18%	12%

* These results represent 100% of Norampac's operations. In its consolidated financial statements, Cascades Inc. accounted for its 50% share of Norampac's results.

** Net funded debt: long-term debt including current portion plus bank loans and advances, less cash and cash equivalents.

***Total capitalization: total assets, less accounts payable.

Paperboard Industries International Inc.: 71%

Paperboard's boxboard shipments rose 3% during the fiscal year ended December 31, 1999. It should be noted that they increased by more than 6% in Europe, but decreased by 2% in North America due to a particularly competitive environment and production problems at the Toronto mill. Net sales decreased from \$780 million in 1998 to \$766 million in 1999. Aside from a lower average selling prices, this decline was mainly attributable to the disposal at the end of the third quarter of the 50% interest held by Paperboard in the Tartas S.A. fluff pulp mill, in France. This sale was motivated by Paperboard's decision to focus on its core business and lower its debt load. In fact, the proceeds from the sale were used to pay down its debt.

EBITDA amounted to \$56 million, as opposed to \$81 million in 1998. The EBITDA margin therefore slipped from 10% to 7%. This decline was due primarily to soaring prices for virgin pulp, recycled fibre and energy as of the second quarter, which were not reflected in selling prices until the very end of the fiscal year. Moreover, the new FjordCell kraft pulp mill in Jonqui re had a difficult start-up which contributed to the decline in Paperboard's EBITDA. The mill has improved its efficiency since then and now produces high-quality pulp. By increasing its vertical integration, this strategic investment will enable Paperboard to minimize its vulnerability to fluctuations in raw material prices.

On the other hand, it should be pointed out that Paperboard's European operations increased their profitability considerably in 1999, particularly the Arnsberg mill in Germany. In North America, in spite of a disappointing performance for the Toronto and East Angus boxboard mills, the Jonquière mill as well as the folding cartons converting plants significantly improved their results. Among other things, the new Hebron unit in Kentucky became profitable within a few months after its start up. It should also be mentioned that over the past year, extensive cost-reduction and optimization measures have been implemented throughout the Corporation, resulting in recurring savings of \$12 million for 1999. Additional measures are now being taken, which are expected to generate additional savings of \$8 million at Paperboard for the year 2000.

Paperboard incurred a net loss of \$14 million in 1999, compared with a net loss of \$13 million in 1998. Results for 1999 include an unusual gain of \$3 million, consisting of a gain on the disposal of the Tartas mill, reduced by a loss resulting from the closing of Paperboard X-Press and the writeoff of the start-up costs of Paperboard UK, two cutting and distribution centres located respectively in the United States and England. On the other hand, Paperboard reduced its long-term debt by \$66 million. Net funded debt amounted to \$454 million as at December 31, 1999, compared with \$499 million one year earlier. However, the total net funded debt to total capitalization ratio went from 60% to 63% in light of a decrease in shareholders' equity.

For fiscal 2000, Paperboard expects results to improve due to its extensive cost-reduction measures, a gradual rise in selling prices for its main products and the optimization of FjordCell. In addition, the demand for boxboard and folding cartons has firmed up considerably in the last few quarters, leading to a significant increase in production volume and order backlogs at its various facilities. Aside from tight management of operating expenses, Paperboard will contain its capital expenditures to approximately \$25 million in order to reserve part of its cash flow from operations for debt reduction. Planned investments will serve essentially to improve productivity and reduce operating costs.

Paperboard Industries International Inc.

For the years ended December 31

(in millions of dollars)

	1999	1998
FINANCIAL HIGHLIGHTS - RESULTS		
Net Sales	766	780
EBITDA	56	81
Unusual items	3	(16)
Net loss	(14)	(13)
BALANCE SHEET HIGHLIGHTS		
Total assets	880	1,011
Total long-term debt	463	529
Net funded debt*	454	499
Shareholders' equity	213	251
Total capitalization**	721	829
KEY FINANCIAL RATIOS		
Net funded debt/Total capitalization	63%	60%
EBITDA margin	7%	10%

* Net funded debt: long-term debt including current portion plus bank loans and advances, less cash and cash equivalents.

** Total capitalization: total assets, less accounts payable.

Rolland Inc.: 73%

For the fiscal year ended December 31, 1999, Rolland's net sales grew by 5% to reach \$707 million. Most of this growth came from the Distribution Division, whose sales rose 11% thanks to the expansion carried out in previous years and the increase in selling prices during the second half of the year. EBITDA fell slightly, from \$48 million for a profit margin of 7% in 1998, to \$47 million for a margin of 7% also in 1999. This slight decline was attributable primarily to the implementation of an accelerated new product development and improvement program at the Provincial Papers coated fine papers mill, in order to focus more on higher value-added products. In the first half of the year, these changes resulted in a significant drop in production at the mill, which was also affected by stiffer competition from foreign producers. However, the impact on Rolland's profitability was almost entirely offset by the excellent performance of the Distribution Division, which almost doubled its EBITDA. The efforts made in recent years to broaden its selection of value-added products and optimize operations enabled this division to take full advantage of the upturn in selling prices for fine papers as of the third quarter.

For its part, banking on its operational efficiency, the St-Jérôme uncoated fine papers mill maintained a very sound performance, although the increases in selling prices initiated in the second half of the year did not fully compensate for higher raw material costs. Aggressive market development and the greater proportion of value-added products in its sales mix contributed to a 5% sales growth.

The new Rolland Converting and Distribution Centre (RCDC) reached cruising speed and made a significant contribution to Rolland's profitability. Finally, for Breakey Fibres, the strong rise in the cost of recycled fibre was partially offset by an increase of almost 15% in shipments as well as increased selling-prices.

Rolland posted net earnings of \$15 million in 1999, compared with \$19 million in 1998. It should be noted that results for 1999 include a \$2 million loss representing Rolland's share in the net loss of the FjordCell kraft pulp mill, in which it holds a 32% equity interest. Without this item, net earnings would have reached \$17 million. It should be pointed out that more than 40% of this amount was recorded in the fourth quarter, setting the stage for the kind of performance Rolland expects to achieve in the coming quarters.

In 1999, Rolland's total net funded debt went from \$129 million to \$134 million. However, the increase in shareholders' equity translated into an improved debt ratio, which went from 50% to 48%.

Rolland's outlook for fiscal 2000 is favourable. Higher selling prices are expected for most types of fine papers manufactured and distributed by Rolland. In addition, the Corporation will benefit from Provincial Papers' more stable production, further directed toward specialty products, as well as a sustained improvement in results from the RCDC, Breakey Fibres and FjordCell. Rolland will continue to focus on lowering its production costs by reducing manufacturing rejects and automating operations, as well as on developing value-added products. It will invest approximately \$18 million in new capital assets to that end, and to equip the Distribution Division with new information technology tools.

Rolland Inc.

For the years ended December 31
(in millions of dollars)

	1999	1998
FINANCIAL HIGHLIGHTS - RESULTS		
Net Sales	707	671
EBITDA	47	48
Net earnings	15	19
BALANCE SHEET HIGHLIGHTS		
Total assets	337	310
Total long-term debt	94	102
Net funded debt*	154	129
Shareholders' equity	124	112
Total capitalization**	279	259
KEY FINANCIAL RATIOS		
Net funded debt/Total capitalization	48%	50%
EBITDA margin	7%	7%

* Net funded debt: long-term debt including current portion plus bank loans and advances, less cash and cash equivalents.

** Total capitalization: total assets, less accounts payable.

Perkins Paper Ltd.: 74%

During the fiscal year ended December 31, 1999, Perkins increased its shipments by 11%, thanks to the major expansion program initiated at the end of 1997 and its market development efforts. Net sales totalled \$290 million, up 9% over 1998. This relatively smaller growth than in shipments can be explained by the greater proportion of jumbo rolls in the sales mix, since Perkins benefited from stable selling prices in comparison with the previous year. A vast equipment optimization program also gave rise to significant productivity and efficiency gains over the past year.

However, sales growth and efficiency gains in 1999 were temporarily offset by a sharp increase in the cost of recycled fibre which was not be reflected immediately in corresponding increases in selling prices. This situation led to a \$5 million decrease in EBITDA, which stood at \$55 million. The profit margin therefore went from 23% to 19%, which remains well above the average in the North American tissue paper industry. Major investments over the past two years raised depreciation and amortization expenses by more than \$3 million. Consequently, Perkins posted net earnings of \$22 million, compared with \$27 million in 1998. The efficiency of its production infrastructure, combined with the strenght of its balance sheet, enabled it to perform well in a rather unfavourable context, especially in the fourth quarter.

As at December 31, 1999, Perkins' net funded debt amounted to \$54 million, representing only 19% of total

capitalization. It should be pointed out that over the past three years, Perkins' considerable cash flow from operations has enabled it to preserve solid financial health while carrying out a three-year capital expenditure program of more than \$120 million. Perkins will complete this program with the start-up of its new tissue paper machine at Rockingham, scheduled for the second quarter of fiscal 2000. Once completed, this project will increase Perkins' total production capacity by 13%.

Increases in selling prices for tissue paper were implemented in early 2000, and others should follow in the coming months. However, as the costs of recycled fibre and virgin pulp continue to rise, Perkins expects that the pressure exerted on its industry's profitability will not start to resorb for another few quarters. The situation should gradually be restored in the second half of the year, but it is mainly as of subsequent fiscal years that Perkins will fully benefit from its recent expansion, especially since its production equipment will only require minor investments in the normal course of business.

During the next few months, Perkins will build upon the quality of its production infrastructure to continue increasing sales while containing cost increases. Among other things, it will invest in employee training to rapidly optimize the new paper machine at Rockingham and raise the overall equipment yield throughout its facilities. Moreover, Perkins' excellent financial health positions it advantageously to seize acquisition or partnership opportunities that could arise from the current industry context.

Perkins Papers Ltd.

For the years ended December 31
(in millions of dollars)

	1999	1998
FINANCIAL HIGHLIGHTS - RESULTS		
Net Sales	290	267
EBITDA	55	60
Net earnings	22	27
BALANCE SHEET HIGHLIGHTS		
Total assets	328	296
Total long-term debt	54	46
Net funded debt*	54	46
Shareholders' equity	195	183
Total capitalization**	286	264
KEY FINANCIAL RATIOS		
Net funded debt/Total capitalization	19%	17%
EBITDA margin	19%	23%

* Net funded debt: long-term debt including current portion plus bank loans and advances, less cash and cash equivalents.

** Total capitalization: total assets, less accounts payable.

MANAGEMENT'S REPORT

The financial statements for the years ended December 31, 1999 and 1998 were completed by the management of Cascades Inc., reviewed by the audit committee and approved by the board of directors. They were prepared in accordance with accounting principles generally accepted in Canada and are consistent with the Company's business.

The Company and its subsidiaries maintain high quality systems of internal controls. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable. The information included in this Annual Report is consistent with the financial statements contained herein.

The financial statements have been audited by PricewaterhouseCoopers LLP whose report is provided below.



LAURENT LEMAIRE

President and Chief Executive Officer
Kingsey Falls, Canada


February 25, 2000

AUDITORS' REPORT TO THE SHAREHOLDERS OF CASCADES INC.

We have audited the consolidated balance sheets of Cascades Inc. as at December 31, 1999 and 1998 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS

Montreal, Canada

January 28, 2000

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

As at December 31, 1999 and 1998
(in millions of dollars)

NOTE 1999 1998

Assets

CURRENT ASSETS

Cash and cash equivalents		19	39
Accounts receivable		465	444
Inventories	3	354	350
		838	833

CAPITAL ASSETS

4 1,355 1,400

OTHER ASSETS

5 243 252

2,436 2,485

Liabilities and Shareholders' Equity

CURRENT LIABILITIES

Bank loans and advances		85	60
Trade accounts payable and accrued liabilities		373	376
Current portion of long-term debt			
With recourse		3	2
Without recourse		24	31
		485	469

LONG-TERM DEBT

6

With recourse		192	185
Without recourse		836	940

DEFERRED INCOME TAXES

89 77

NON-CONTROLLING INTERESTS

185 196

SHAREHOLDERS' EQUITY

Capital stock	7	159	159
Retained earnings		479	428
Cumulative translation adjustments		11	31
		649	618

2,436 2,485

Approved by the Board of Directors,

Laurent Lemaire

LAURENT LEMAIRE

Director

Bernard Lemaire

BERNARD LEMAIRE

Director

Consolidated Statements of Earnings

For the years ended December 31, 1999 and 1998
(in millions of dollars, except per share amounts)

	NOTE	1999	1998
SALES		2,776	2,682
FREIGHT		161	155
NET SALES		2,615	2,527
COST OF SALES AND EXPENSES			
Cost of sales		2,036	1,962
Selling and administrative expenses		270	249
Depreciation and amortization		117	113
		2,423	2,324
OPERATING INCOME		192	203
FINANCIAL EXPENSES			
Interest on long-term debt		72	76
Other interest		14	15
		86	91
		106	112
UNUSUAL ITEMS	8	(3)	(15)
		103	97
PROVISION FOR INCOME TAXES	9	42	44
		61	53
SHARE OF RESULTS OF SIGNIFICANTLY INFLUENCED COMPANIES		5	1
NON-CONTROLLING INTERESTS		(8)	(9)
		(3)	(8)
NET EARNINGS FOR THE YEAR		58	45
NET EARNINGS PER COMMON SHARE		\$0.86	\$0.67

Consolidated Statements of Retained Earnings

For the years ended December 31, 1999 and 1998
(in millions of dollars)

	1999	1998
BALANCE - BEGINNING OF YEAR	428	390
Net earnings for the year	58	45
Dividends on common shares	(7)	(7)
BALANCE - END OF YEAR	479	428

Consolidated Statements of Cash Flows

For the years ended December 31, 1999 and 1998
(in millions of dollars)

NOTE 1999 1998

OPERATING ACTIVITIES

Net earnings for the year		58	45
Items not affecting cash			
Depreciation and amortization		117	113
Unusual items		3	(1)
Deferred income taxes		12	19
Shares of results of significantly influenced companies		(5)	(1)
Non-controlling interests		8	9
Other		(1)	1
		192	185
Net change in non-cash operating working capital balances	10	(51)	4
		141	189

INVESTING ACTIVITIES

Purchase of capital assets		(128)	(227)
Other assets		(12)	(23)
Business acquisitions		(13)	(51)
Business disposals		17	(1)
		(156)	(302)

FINANCING ACTIVITIES

Bank loans and advances		27	27
Increase in long-term debt		42	492
Payments of long-term debt		(82)	(409)
Net proceeds on issue of shares		-	3
Dividends		(7)	(7)
Other		(7)	(4)
		(27)	102

NET CHANGE IN CASH AND

CASH EQUIVALENTS DURING THE YEAR		(22)	(11)
TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS		2	1
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		39	49
CASH AND CASH EQUIVALENTS - END OF YEAR		19	39

SUPPLEMENTAL DISCLOSURE

Interest paid		76	88
Income taxes paid		25	31

Segmented Information

For the years ended December 31, 1999 and 1998
(in millions of dollars)

The Company's operations are principally in the following segments: boxboard, fine papers, tissue papers, containerboard and other specialty products related to pulp and paper. The classification of these segments is based on the primary operations of the main subsidiaries and joint ventures of the Company.

The Company analyzes the performance of its segments based on their earnings before interest, taxes, depreciation and amortization prepared in accordance with accounting principles generally accepted in Canada. Earnings for each segment are prepared on the same basis as those of the Company. Intersegments' operations are recorded on the same basis as sales to third parties, that being fair market value.

The earnings and assets of the Company presented by reportable segments are as follows:

BY BUSINESS SEGMENT	1999	1998
Net sales		
Paperboard Industries International Inc.	766	780
Rolland Inc.	707	671
Perkins Papers Ltd.	290	267
Norampac Inc. (50%)	463	446
Cascades Inc. and others	442	407
Intersegments	(53)	(43)
	2,615	2,527
Earnings before interest, taxes, depreciation and amortization		
Paperboard Industries International Inc.	56	81
Rolland Inc.	47	48
Perkins Papers Ltd.	55	60
Norampac Inc. (50%)	84	64
Cascades Inc. and others	67	73
	309	316
	(117)	(113)
Depreciation and amortization		
Operating income	192	203
Purchase of capital assets		
Paperboard Industries International Inc.	30	114
Rolland Inc.	13	15
Perkins Papers Ltd.	44	39
Norampac Inc. (50%)	19	20
Cascades Inc. and others	22	39
	128	227

Segmented Information

For the years ended December 31, 1999 and 1998
(in millions of dollars)

BY BUSINESS SEGMENT (CONT'D)

Identifiable assets

	1999	1998
Paperboard Industries International Inc.	880	1,010
Rolland Inc.	334	310
Perkins Papers Ltd.	328	296
Norampac Inc. (50%)	620	630
Cascades Inc. and others	498	468
Consolidation revaluation	(201)	(210)
Intersegments	(23)	(16)
	2,436	2,485

Long-term debt

Paperboard Industries International Inc.	463	529
Rolland Inc.	94	102
Perkins Papers Ltd.	54	46
Norampac Inc. (50%)	202	244
Cascades Inc. and others	242	237
	1,055	1,158

BY GEOGRAPHIC SEGMENT

Sales

Canada		
Within Canada	1,442	1,390
To the United States	604	583
Offshore	34	41
	2,080	2,014
United States		
Within the United States	165	127
To Canada	13	13
	178	140
France		
Within France	140	153
Outside France	180	189
	320	342
Other countries	198	186
	2,776	2,682
Capital assets		
Canada	1,008	1,012
United States	141	125
France	147	194
Other countries	59	69
	1,355	1,400

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1999 and 1998
(tabular amounts in millions of dollars)

note 1.

Accounting policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the following significant accounting policies:

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, which have been accounted for using the purchase method. They also include the portion of the accounts of the joint ventures accounted for through the proportional consolidation method. Investments in significantly influenced companies are accounted for using the equity method.

The main subsidiaries and joint ventures are as follows:

Primary business segment		Percentage of common shares held by the Company as at December 31,	
		1999	1998
		%	%
Paperboard Industries			
International Inc.	Boxboard	71.12	71.12
Rolland Inc.	Fine papers	73.31	73.20
Perkins Papers Ltd.	Tissue papers	74.19	73.15
Norampac Inc.	Containerboard	50.00	50.00
Boralex Inc.	Energy	45.00	45.00

On December 23, 1998, the Company transferred 26.6% of the issued and outstanding Class A shares of Boralex Inc. to a trust managed by General Trust of Canada. As a result, the Company holds 45% of the outstanding shares of Boralex Inc. The trustee has full administration rights over the transferred shares. The Company is the sole beneficiary of this trust. The equity method has been used to account for the investment in Boralex Inc. since this date (note 2).

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the balance sheet date as well as the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Fair market value of financial instruments

The Company has estimated the fair market value of its financial instruments based on current interest rates, the market value and current price of financial instruments with similar terms. Unless otherwise disclosed herein, the carrying value of these financial instruments, especially those with current maturities such as cash and cash equivalents, accounts receivable, bank loans and advances, and trade accounts payable and accrued liabilities, approximates their fair market value.

Change in accounting policies

In 1999, the Company applied retroactively the new recommendation of the Canadian Institute of Chartered Accountants relative to the statement of cash flows. The application of this new accounting standard did not have any effect on prior years' net earnings and shareholders' equity. However, some comparative figures have been restated with respect to the new disclosure requirements.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with maturities of three months or less.

Inventories

Inventories of finished goods are valued at the lower of average production cost and net realizable value. Inventories of raw materials and supplies are valued at the lower of cost and replacement value. Cost of raw materials and supplies is determined using the average cost and a first-in, first-out basis respectively.

Capital assets and depreciation

Capital assets are recorded at cost, including interest incurred during the construction period of certain capital assets. Depreciation is calculated on a straight-line basis at annual rates varying from 3% to 5% for buildings, 5% to 10% for machinery and equipment, and 15% to 20% for automotive equipment, determined according to the useful life of each class of capital assets.

Grants and investment tax credits

Grants and investment tax credits are accounted for using the cost reduction method and are amortized to earnings as a reduction of depreciation, using the same rates as those used to depreciate the related capital assets.

NOTE 1. ACCOUNTING POLICIES (CONT'D)

Other investments

Other investments are recorded at cost except when there is a decline in value which is other than temporary, in which case they are reduced to their estimated net realizable value.

Goodwill

Goodwill results principally from the excess of the cost of business acquisitions over the fair value of the net assets acquired and is amortized on a straight-line basis over periods not exceeding 40 years. The Company assesses at each balance sheet date whether a provision for permanent impairment in value of goodwill should be recorded to earnings. This is accomplished mainly by determining whether projected undiscounted future cash flows exceed the net book value of goodwill.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization and include in particular the issue costs of long-term debt, which are amortized on a straight-line basis over the anticipated period of repayment of the respective debt, and start-up costs for new products which are amortized on a straight-line basis over a period of three to five years from the first production date.

Environmental costs

Environmental expenditures, including site rehabilitation costs, are expensed or capitalized depending upon their future economic benefit. Expenditures incurred to prevent future environmental contamination are capitalized in capital assets and amortized on a straight-line basis at annual rates varying from 3% to 10%. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. A provision for environmental costs is recorded when it is probable that a liability has been incurred and the costs can be reasonably estimated.

Income taxes

Income taxes are provided at current rates for all items included in the statements of earnings, regardless of the period when such items are reported for income tax purposes. The principal item which results in timing differences for financial and tax reporting purposes is depreciation. Deferred income taxes are not adjusted for subsequent changes in income tax rates.

Foreign currencies translation**Foreign currency transactions**

Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated into the local currency at the rate of exchange prevailing at the balance sheet date. Unrealized gains and losses on translation of long-term monetary items are deferred and amortized over the remaining lives of these items, except to the extent of the gains and losses related to the portion of the long-term debt designated as a hedge of the net investment of the Company in a self-sustaining operation, which are offset against the cumulative

translation adjustments. Unrealized gains and losses on translation of other monetary assets and liabilities are reflected in the determination of the net results for the year. Unrealized gains and losses on forward exchange contracts used to hedge future revenue streams in foreign currencies are deferred and accounted for as part of the transaction being hedged.

Foreign operations

The Company's foreign operations are defined as self-sustaining. The assets and liabilities of these operations are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Revenue and expenses are translated at the average exchange rate for the year. Translation gains or losses are deferred and shown as a separate component of shareholders' equity.

Amounts per common share

Amounts per common share are determined using the weighted average number of common shares outstanding during the year. When applicable, fully diluted amounts per common share show the maximum reduction in the amount per share that would have resulted if all possible conversions, rights and issues had taken place at the beginning of the year.

Pension costs

Certain subsidiaries and a joint venture of the Company maintain defined benefit pension plans which provide retirement benefits for certain employees, based upon the length of service and, in certain cases, the final average earnings of the employee. In addition, certain employees are members of defined contribution pension plans managed by labour unions under the terms of collective agreements.

For subsidiary-sponsored or joint venture-sponsored defined benefit plans, pension expense is determined by the projected benefit method using management's best estimate and assumptions for future investment return, interest rates and salary changes. Adjustments arising from plan amendments, experience gains and losses, and the initial pension surpluses and deficiencies are amortized over the estimated average remaining service lives of the employee groups.

For defined contribution pension plans managed by labour unions, pension expense is determined and funded in accordance with the collective agreements.

note 2.**Business acquisitions and disposals**

In 1999, the Company completed the acquisition of a floor-covering support paper production facility located in Boissy-le-Châtel, France, for a total consideration of \$13,026,000. In addition, Paperboard Industries International Inc. disposed of its 50% interest in a fluff pulp mill Tartas S.A., located in France, for a total consideration of \$35,557,000, including a \$5,000,000 balance of sale price, and a contingent amount of up to \$10,000,000 to be received based on the profitability of the mill in the next three years and for which no value has been recorded due to the underlying uncertainty.

In 1998, the Company completed the acquisition of a deinking pulp production facility located in Auburn, Maine.

The Company also acquired the assets of a packaging production facility for rolls in the paper industry located in Richmond, Virginia. In addition, Boralex Inc. acquired the assets of a wood waste electrical generating plant located in Stratton, Maine. In 1998, the Company disposed of its 50% interest in a plant specialized in the preparation of rubber mixtures, located in Quebec. These transactions have been completed for a total net consideration of \$49,472,000.

These acquisitions have been accounted for using the purchase method and the accounts and results of operations of these entities have been included in the consolidated financial statements since their respective acquisition date. The following allocation of the purchase prices to the identifiable assets acquired and liabilities assumed resulted in a goodwill of \$118,000 (1998 - \$10,338,000) which will be amortized over a period not exceeding 40 years.

	1999		1998	
	Net assets acquired	Net assets disposed of	Net assets acquired	Net assets disposed of
Cash	-	(13)	-	-
Current assets	8	(22)	7	(2)
Long-term assets	13	(15)	78	(2)
	21	(50)	85	(4)
Bank advances	-	-	-	1
Current liabilities	(7)	14	(1)	1
Long-term debt	(1)	8	(33)	-
Deferred income taxes	-	1	-	-
	(8)	23	(34)	2
Net gain on business disposal	-	(8)	-	-
Total consideration	13	(35)	51	(2)

Following the transaction described in note 1, the Company ceased to include Boralex Inc. in its basis of consolidation effective December 23, 1998. At that date, the cash and the assets and liabilities of Boralex Inc. amounted respectively to \$3,299,000, \$136,780,000 and \$119,847,000.

note 3.

Inventories

	1999	1998
Finished goods	195	188
Raw materials	70	72
Supplies	89	90
	354	350

note 4.

Capital assets

	1999		
	Cost	Accumulated depreciation	Net
Land	39	-	39
Buildings	318	72	246
Machinery and equipment	1,613	592	1,021
Automotive equipment	41	26	15
Other	47	6	41
	2,058	696	1,362
Unamortized deferred grants and credits			7
			1,369

	1998		
	Cost	Accumulated depreciation	Net
Land	38	-	38
Buildings	311	67	244
Machinery and equipment	1,547	532	1,015
Automotive equipment	39	24	15
Other	102	4	98
	2,037	627	1,410
Unamortized deferred grants and credits			10
			1,420

Capital assets include assets under capital leases with a cost of \$26,578,000 and accumulated depreciation of \$14,820,000 as at December 31, 1999 (1998 - \$41,841,000 and \$16,166,000 respectively). Other capital assets include, among others, machinery and equipment in process of installation with a net book value of \$32,265,000 (1998 - \$84,889,000), deposits on purchase of capital assets amounting to \$170,000 (1998 - \$311,000) and unused properties, machinery and equipment with a net book value of \$3,671,000 (1998 - \$9,174,000) which does not exceed their estimated net realizable value.

note 5.

Other assets

	1999	1998
Investments in significantly influenced companies	92	86
Other investments	16	16
Goodwill	61	63
Deferred charges	39	41
Excess of pension funding over expenses	33	30
Deferred foreign exchange loss	2	18
	243	252

In July 1998, Paperboard Industries International Inc. increased its equity interest in Dopaco Inc. by 5% to 25% for a total consideration of \$9,431,000. The allocation of the purchase price resulted in a goodwill of \$7,252,000 which will be amortized over 40 years.

note 6.

Long-term debt With recourse

The following debts have or may have recourse rights against certain assets of Cascades Inc. or its general credit. These debts include restrictive and financial covenants.

	Note	1999	1998
Revolving credit facility, 8.98% variable rate as at December 31, 1999	6 a)	156	148
Loan of a nominal amount of US\$21,664,000, 7.94% fixed rate, payable through 2008		31	32
Other debts		8	7
		195	187
Less: Current portion		3	2
		192	185

NOTE 6. LONG-TERM DEBT (CONT'D)

Without recourse

The following debts of subsidiaries and joint ventures of the Company do not have any recourse against the assets or the general credit of Cascades Inc. These debts without recourse have certain collaterals from the subsidiaries and include restrictive and financial covenants.

	Note	1999	1998
Revolving credit facilities, 6.38% weighted average variable rate	6 b)	255	303
Acquisition credit facility, 6.21% weighted average variable rate	6 c)	59	82
Redeemable preferred shares	6 d)	76	76
8.375% Senior Notes, maturing in 2007	6 e)	180	187
9.50% and 9.375% Senior Notes, maturing in 2008	6 f)	153	165
Loans, 6.13% weighted average variable rate payable through 2011		76	72
Loans, 5.19% weighted average fixed rate payable through 2017		16	26
Capital lease obligations	6 k)	27	42
Other debts		13	18
		860	971
Less: Current portion		24	31
		836	940

a) The Company has a credit facility for an authorized amount totalling \$200,000,000, which converts after a revolving period of two years and unless a renewal is agreed to annually, into a term loan repayable over a period of three years. For the purposes of the repayments disclosed in note 6 j), it is assumed that the revolving period will be renewed in the future.

b) The subsidiaries and joint ventures of the Company have available revolving credit facilities for an authorized amount totalling Cdn\$397,866,000 and US\$145,000,000. These credit facilities mature as follows: Cdn\$140,500,000 in 2003, US\$45,000,000 in 2005, Cdn\$257,366,000 reducing from 2000 to 2004 until complete extinguishment and US\$100,000,000 reducing from 2001 to 2005. For credits totalling \$297,866,000 an additional margin may be added to the interest rate based on certain financial ratios.

c) A subsidiary of the Company concluded an acquisition credit facility not to exceed \$145,000,000 available by way of term loans on a reducing non-revolving basis and maturing in 2003. The available credit is reduced quarterly beginning in December 2000 and is also reduced by the net proceeds from disposal of assets and the issuance of new debt and by 50% of the excess cash flow, under certain circumstances described in the credit agreement. The maximal amount of the credit facility has been reduced to \$111,808,000 in 1999. No repayment is expected for 2000.

d) The redeemable preferred shares include the 2,700,000 Class A preferred shares of a subsidiary which bear a cumulative quarterly dividend of 1.25% of their accrued redemption amount of \$75,927,000, of which \$8,427,000 represents the dividend accrued for the first three years following their issuance and payable upon redemption. These shares are redeemable by the subsidiary at any time, but no later than November 30, 2003, at a price

of \$25 per share plus any accrued and unpaid dividend. The holders may require the subsidiary to redeem, at a price of \$25 per share plus any accrued and unpaid dividend, a maximum of 800,000 shares on November 30, 2000, an additional 800,000 shares on November 30, 2001 and 2002, and the remaining outstanding balance on December 31, 2003.

As at December 31, 1999, all of the redeemable preferred shares have been shown as non-current liabilities because, should the holders ask for the redemption of a maximum of 800,000 shares on November 30, 2000 at their redemption price of \$22,497,000, the amount will be paid with the long-term revolving credit facility available.

e) On September 25, 1997, a subsidiary of the Company completed a private placement under Rule 144A of the United States Securities Act and issued US\$125,000,000 of 8.375% Senior Notes due 2007. The Senior Notes are redeemable prior to maturity at the request of the subsidiary, in whole or in part, under certain conditions and requiring the payment of a premium. Subsequently, the subsidiary completed the filing of an Exchange Offer Registration Statement with the Securities and Exchange Commission of the United States to allow these Notes to be qualified as tradable securities. The proceeds from this issuance have been used mainly to fund the redemption of the debentures of the subsidiary.

f) In January 1998, a joint venture of the Company completed a private placement amounting to US\$150,000,000 and Cdn\$100,000,000 of first priority Senior Notes due 2008, unsecured, bearing interest at 9.50% and 9.375% respectively payable semi-annually. The Senior Notes are redeemable prior to maturity at the request of the joint venture, in whole or in part, under certain conditions and requiring the payment of a premium. On July 29, 1998, this placement became public as a result of an exchange offer of issued Senior Notes into new Senior Notes qualified as tradable securities under the trust agreement regulating the Senior Notes, and after having received the approval of the authoritative bodies regulating the issuance of these securities in Canada and the United States. The proceeds from this issuance have been used mainly to fund the redemption of the acquisition credit facility.

g) As at December 31, 1999, the long-term debt included an amount of US\$247,372,000, FF372,384,000 and DM51,083,000 denominated in foreign currencies.

h) Accounts receivable, inventories and capital assets pledged as collateral for bank loans and advances and long-term debt, are as follows:

	Bank loans and advances	Long- term debt	Accounts receivable and inven- tories	Assets pledged as collateral Capital assets
WITH RECOURSE				
Cascades Inc.	8	195	72	152
WITHOUT RECOURSE				
Paperboard Industries				
International Inc.	4	463	253	103
Rolland Inc.	40	94	179	117
Perkins Papers Ltd.	5	54	-	-
Norampac Inc. (50%)	11	202	128	130
Other subsidiaries and joint ventures	17	47	14	74
	77	860	574	424
	85	1,055	646	576

i) The aggregate fair value of the long-term debt, including capital lease obligations but excluding preferred shares and pension obligations (\$11,000,000 as at

December 31, 1999, included in "Other debts"), was estimated at \$957,086,000 as at December 31, 1999 based on the market value for the Senior Notes and on discounted future cash flows using interest rate available for issues with similar terms and average maturities for the other debts.

j) The estimated aggregate amount of repayments on long-term debt, excluding capital lease obligations and redeemable preferred shares, in each of the next five years is as follows:

2000	21
2001	36
2002	40
2003	186
2004	65

k) As at December 31, 1999, future minimum payments under capital lease obligations are as follows:

Years ending December 31,	
2000	8
2001	7
2002	6
2003	5
2004	5
	31
Less: Interest (average weighted rate of 3.77%)	4
	27
Less: Current portion	6
	21

l) As at December 31, 1999, the Company and its subsidiaries and joint ventures had unused lines of credit on short-term and long-term credits for \$76,900,000 and \$436,100,000 respectively.

note 7.

Capital stock

a) Authorized, unlimited as to number
Common shares without nominal value

Issued	1999	1998
66,902,210 common shares	159	159

b) During 1999, the Company has not issued any common shares following the exercise of share options. In 1998, 483,850 common shares were issued following the exercise of share options for a cash consideration of \$2,661,000.

c) During 1999, the Company has renewed the redemption program in the normal course of business of a maximum of 1,672,558 (1998 - 3,330,518) common shares, to the Montreal and Toronto stock exchanges. This amount represents 2.5% of issued and outstanding common shares. The redemption authorization is valid from May 31, 1999 to May 30, 2000. During 1998 and 1999, the Company has not purchased any common shares.

d) Under the terms of a new share option plan adopted on December 15, 1998 for officers and key employees of the Company, 6,641,368 common shares have been specifically reserved. Each option will expire at a date not to exceed ten years following the date the option was granted. The exercise price of an option shall not be lower than the share market value at the date of grant, determined as the average of closing prices of the

share on the Montreal and Toronto stock exchanges on the five trading days preceding the date of grant. The terms for exercising the options are of 25% of the number of shares under option within twelve months after the date of grant, and up to an additional 25% each twelve months after the first, second and third date of grant's anniversary.

The options cannot be exercised when the share market value is lower than the Company net book value at the date of grant. No compensation cost is recognized when the options are issued to employees. Any consideration paid by employees on exercise of options is credited to capital stock.

Changes in the number of options outstanding were as follows:

		1999		1998
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning of year				
Granted	30,000	6.25	513,850	5.54
Exercised	423,039	8.38	-	-
End of year	-	-	(483,850)	5.50
Options exercisable —				
End of year	453,039	8.24	30,000	6.25
	24,000	6.25		

The following options were outstanding as at December 31, 1999:

	Options outstanding		Options exercisable		
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Expiration
Year granted					
1996	30,000	6.25	24,000	6.25	2006
1999	423,039	8.38	-	-	2009
	453,039		24,000		

note 8.

Unusual items

	Note	1999	1998
European Commission fine	8 a)	-	(16)
Expenses related to business closing	8 b)	(9)	-
Other expenses	8 c)	(2)	-
Gain on business disposals	8 d)	8	1
		(3)	(15)

a) In 1998, the European Tribunal of First Instance rendered its decision on the motion filed in 1994 by Cascades S.A. to contest a fine imposed by the European Commission following its investigation concerning competition practices among Europe's boxboard manufacturers. The Tribunal confirmed the decision rendered in 1994 and the fine imposed by the Commission. The fine of 16,200,000 Ecus (\$26,200,000) plus 4,200,000 Ecus (\$6,900,000) in accrued interest were paid in July 1998 by Cascades S.A. A provision for 50% of the fine had been recorded in 1994. The balance, representing \$16,165,000, has been expensed in 1998.

b) In 1999, the Company has definitively closed its organic felt facility located in Joliette, Quebec, generating costs of \$5,814,000. In addition, during 1999, Paperboard Industries International Inc. has closed its sheeting and distribution centre Paperboard X-press in Maryland, generating closing costs of \$2,971,000.

NOTE 8. UNUSUAL ITEMS (CONT'D)

c) Other expenses include provisions for impairment in value of certain long-term assets of a subsidiary.

d) In 1999, Paperboard Industries International Inc. realized a gain of \$7,941,000 from the sale of the Tartas S.A. (France) fluff pulp mill. In 1998, the Company received a contingent consideration in relation to the disposal in 1996 of its subsidiaries from the absorbent paper products sector.

note 9.**Income taxes**

a) The effective income tax rate differs from the basic rate for the following reasons:

	1999	1998
	%	%
Combined basic Canadian and Quebec income tax rate	45.8	45.8
Increase (decrease) in rate arising from the following:		
Difference in foreign operations statutory income tax rate	0.1	(0.3)
Unrecognized tax benefit arising from losses of subsidiaries	3.3	2.6
Permanent differences	3.2	1.5
Deduction for manufacturing and processing and income from active business carried on in Quebec	(13.0)	(13.3)
Non-deductible unusual items	—	6.8
Large corporations tax	2.6	3.1
Other	(0.6)	0.3
	(4.4)	0.7
Effective income tax rate for the year	41.4	46.5

b) A subsidiary has benefited, under certain conditions, from tax exemptions from French corporate income tax. This entity may pay a dividend out of its cumulative earnings, but would be required to pay a distribution tax equal to the difference between corporate tax determined using the normal rate (40% in France) and the tax initially paid on these earnings. As at December 31, 1999, the cumulative amount of retained earnings of this entity that would be subject to the distribution tax amounted to FF144,656,000 (\$27,490,000). No income tax liability has been recorded by the Company on these retained earnings since it is not intended to repatriate them.

c) Certain subsidiaries have accumulated losses for income tax purposes amounting to approximately \$187,856,000 which may be carried forward to reduce taxable income in future years. The future tax benefit resulting from the deferral of \$87,665,000 from these losses has been recognized in the accounts as a reduction of deferred income taxes. These unused losses for income tax purposes may be claimed in years ending no later than from 2000 to 2019 for an amount of \$125,602,000 and indefinitely for an amount of \$62,254,000.

note 10.**Net change in non-cash operating working capital balances**

	1999	1998
Accounts receivable	(56)	(21)
Inventories	(26)	11
Trade accounts payable and accrued liabilities	31	14
	(51)	4

note 11.**Pension plans**

The actuarial present value of accrued pension benefit obligations for accounting purposes and the estimated market-related value of pension fund assets of the defined benefit pension plans of the Company's subsidiaries and joint ventures are \$306,273,000 and \$359,663,000 respectively as at December 31, 1999 (\$268,615,000 and \$327,461,000 as at December 31, 1998).

note 12.**Commitments and contingencies**

a) As at December 31, 1999, consolidated commitments under signed agreements relating to the purchase of capital assets and raw materials amounted to \$3,346,000 and \$18,993,000 respectively. Commitments concerning the purchase of raw materials are spread out over several years and will be concluded at varying prices according to conditions prevailing on the market.

In addition, future minimum payments under operating leases are as follows:

Years ending December 31,	
2000	16
2001	14
2002	12
2003	9
2004	7
Thereafter	29

b) The Company is a defendant in several anti-trust civil actions in the United States in the tissue papers segment. Management believes that these claims are groundless, and that they will have no material impact on the financial statements of the Company. Management intends to vigorously defend these claims. No provision has been made in the financial statements relating to these claims.

c) Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant

systems failure which could affect the Company's ability to conduct normal business operations. The Company has adopted an action plan and formed a committee whose mandate is to evaluate and identify the systems that could be affected. It also had the responsibility of ensuring a follow-up of the corrective measures to be taken and the implementation of a contingency plan for every sector of the Company. Although no problem has been observed and despite all efforts made by the Company, its customers, suppliers or other third parties, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company have been fully resolved.

note 13.

Financial instruments

The Company and some of its subsidiaries utilize a variety of derivative financial instruments to limit their exposure to foreign currency fluctuations and changing interest rates but do not hold or issue such financial instruments for trading purposes.

Currency risks

The Company is exposed to currency risks as a result of its export of goods produced in Canada, France, Germany, Sweden and England. These risks are partially covered by purchases, debt service and forward exchange contracts.

Some of the Company's Canadian subsidiaries and joint ventures entered into contracts to sell forward U.S. dollars in exchange for Canadian dollars. As at December 31, 1999, these subsidiaries and joint ventures held forward exchange contracts with a notional amount of \$59,680,000 (1998 - \$122,539,000) representing an unrealized gain of \$1,423,000 (1998 - unrealized loss of \$6,353,000).

The European subsidiaries entered into forward exchange contracts which mature in less than a year to hedge their currency risks resulting from sales and purchases in European currencies and in U.S. and Canadian dollars. As at December 31, 1999, these contracts had a net unrealized loss of \$109,000 (1998 - \$1,075,000) on a notional amount of \$30,384,000 (1998 - \$60,309,000).

Interest rate risks

As at December 31, 1999, approximately 52% (1998 - 53%) of the Company's long-term debt was at variable rate. Interest rate swaps have been contracted to fix interest on a notional principal amount of \$50,200,000 (1998 - \$46,120,000) on a 6.87% weighted average rate. These instruments which represented a net unrealized gain of \$1,000,000 as at December 31, 1999 (1998 - unrealized loss of \$991,000) expire up to 2003.

Credit risks

There is no particular concentration of credit risks due to the North American and European distribution of customers and procedures for the management of commercial risks. Derivative financial instruments include an element of credit risk should the counterparty be unable to meet its obligations. The Company reduces this risk by dealing with creditworthy financial institutions.

note 14.

Interests in joint ventures

The major components of the Company's interests in joint ventures in the consolidated financial statements are as follows:

	1999	1998
Consolidated balance sheets		
Current assets	152	176
Long-term assets	325	355
Current liabilities	83	103
Long-term debt	214	267
Consolidated statements of earnings		
Sales	623	620
Operating income	63	32
Financial expenses	23	23
Net earnings	31	10
Consolidated statements of cash flows		
Cash flow from operations	69	43
Net change in non-cash operating working capital balances	(7)	(5)
Investing activities	(26)	(48)
Financing activities	(22)	20

HISTORICAL FINANCIAL INFORMATION 1994-1999

For the years ended December 31
(in millions of dollars, except per share amounts and ratios)

Highlights – Consolidated Results

	1999	1998	1997	1996	1995	1994
Net Sales	2,615	2,527	2,109	2,012	2,184	1,643
Cost of sales and expenses	2,306	2,211	1,860	1,726	1,879	1,469
Earnings before interest, taxes, depreciation and amortization (EBITDA)	309	316	249	286	305	174
Depreciation and amortization	117	113	94	86	78	66
Operating income	192	203	155	200	227	108
Financial expenses	86	91	60	67	71	62
	106	112	95	133	156	46
Unusual items	(3)	(15)	4	32	21	10
	103	97	99	165	177	56
Provision for income taxes	42	44	32	57	38	18
	61	53	67	108	139	38
Share of results of significantly influenced companies	5	1	1	(1)	–	–
Non-controlling interests	(8)	(9)	(9)	(22)	(26)	(4)
Net earnings	58	45	59	85	113	34
Net earnings per common share	\$ 0.86	\$ 0.67	\$ 0.85	\$ 1.37	\$ 1.84	\$ 0.48

Highlights – Consolidated Cash Flows

Cash flow from operations	192	185	162	197	209	101
per common share	\$ 2.87	\$ 2.77	\$ 2.45	\$ 3.28	\$ 3.45	\$ 1.61
Capital expenditures	(128)	(227)	(153)	(118)	(114)	(73)
Business acquisitions	(13)	(51)	(99)	–	(31)	(6)
Business disposals	17	(1)	–	84	–	13
Increase (decrease) in long-term debt	(40)	83	188	(17)	(12)	(12)
Dividends on common shares	(7)	(7)	(6)	(6)	–	–
per common share	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10	–	–
Dividend yield	1.1%	1.3%	1.0%	1.3%	–	–

Highlights – Consolidated Balance Sheets

(as at December 31)

Working capital	353	364	339	218	206	141
Capital assets	1,355	1,400	1,314	1,114	1,145	944
Total assets	2,436	2,485	2,323	1,874	1,930	1,629
Long-term debt	1,055	1,158	1,076	690	716	561
Non-controlling interests	185	196	208	178	192	137
Shareholders' equity	649	618	563	591	525	418
per common share	\$ 9.70	\$ 9.24	\$ 8.47	\$ 8.26	\$ 7.02	\$ 5.13

Stock Market Highlights

Shares issued and outstanding (in millions)	66.9	66.9	66.4	56.4	57.6	57.8
Market capitalization	589	522	681	434	411	426
Closing price (as at December 31)	\$ 8.80	\$ 7.80	\$10.25	\$ 7.70	\$ 7.13	\$ 7.37
High	\$10.25	\$11.30	\$11.50	\$ 8.20	\$ 8.12	\$ 8.87
Low	\$ 7.50	\$ 6.80	\$ 6.45	\$ 5.50	\$ 6.50	\$ 6.37
Trading volume (in millions)	8.9	13.1	32.8	33.2	18.6	30.1

Key Financial Ratios

Net funded debt/Total capitalization	54%	56%	54%	43%	49%	46%
EBITDA/Financial expenses	3.6x	3.4x	4.2x	4.3x	4.3x	2.8x
Net sales/Total assets	1.1x	1.0x	0.9x	1.1x	1.1x	1.0x
EBITDA margin	12%	13%	12%	14%	14%	11%
Return on equity	9%	8%	10%	16%	28%	11%
Price to earnings	10.2x	11.6x	12.1x	5.6x	3.9x	16.4x
Price to book value	0.9x	0.8x	1.2x	0.9x	1.0x	1.4x
Price to cash flow	3.1x	2.8x	4.2x	2.3x	2.1x	4.6x

SOCIAL REPORT 1999

Workforce

	New staff hired	Departures	Students hired	Trainees	Inter- company transfers	Number of employees
Cascades Inc.	503	451	228	74	169	2,474
Norampac Inc.	356	329	373	55	30	3,887
Paperboard						
Industries International Inc.	224	314	169	78	19	2,608
Rolland Inc.	119	109	136	8	3	1,751
Perkins Papers Ltd.	123	108	80	30	7	956
Boralex Inc.	37	12	4	3	6	96
Total	1,362	1,323	990	248	234	11,772

Remuneration

(in thousands of \$)

	Absenteeism rate (%)	Gross salaries	Fringe benefits	Profit- sharing	Total remuneration
Cascades Inc.	3.68%	98,412	35,081	8,982	142,476
Norampac Inc.	3.66%	174,020	57,549	14,059	245,628
Paperboard					
Industries International Inc.	5.39%	133,091	57,850	4,222	195,163
Rolland Inc.	3.32%	71,702	26,430	4,211	102,343
Perkins Papers Ltd.	5.11%	38,129	16,049	5,046	59,224
Boralex Inc.	1.53%	4,548	1,362	1,160	7,070
Total	4.09%	519,902	194,321	37,680	751,904

Health and Safety

	Hours worked (in thousands)	Number of accidents		Number of hours	
		lost time	modified work	lost time	modified work
Cascades Inc.	4,730	195	129	27,772	15,444
Norampac Inc.	7,702	137	159	30,951	18,167
Paperboard					
Industries International Inc.	5,183	151	75	21,250	14,810
Rolland Inc.	3,381	48	85	5,194	19,969
Perkins Papers Ltd.	1,664	93	26	5,329	7,602
Boralex Inc.	187	8	6	1,158	608
Total	22,847	632	480	91,654	76,600

Training

	Number of employees	Number of hours	Cost (in thousand of \$)	Cost (in % of salary mass)
Cascades Inc.	1,765	83,203	2,539	2.4%
Norampac Inc.	2,612	103,918	3,562	1.9%
Paperboard				
Industries International Inc.	2,101	81,243	3,250	2.4%
Rolland Inc.	1,290	62,489	1,824	2.4%
Perkins Papers Ltd.	684	38,487	1,456	3.4%
Boralex Inc.	78	906	34	0.6%
Total	8,530	370,246	12,665	2.3%

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Bernard Lemaire ⁽¹⁾
Chairman of the Board
of Cascades Inc.
Chairman of the Board and Chief
Executive Officer of Boralex Inc.

Laurent Lemaire ⁽¹⁾
President and Chief Executive
Officer of Cascades Inc.

Alain Lemaire ⁽¹⁾
Executive Vice-President
of Cascades Inc.
President and Chief Executive
Officer of Norampac Inc.

André Belzile ⁽¹⁾
Vice-President and Chief
Financial Officer of Cascades Inc.

Norman Boisvert ^{(2) (3)}
Vice-President, Administration
of Cascades Inc.

Martin P. Pelletier ⁽⁴⁾
Vice-President and
Chief Operating Officer,
Containerboard of Norampac Inc.

Élise Pelletier ⁽³⁾
Vice-President, Management
and Human Resources
of Norampac Inc.

Paul R. Bannerman
Chairman of the Board
of Etcan International Inc.

Jacques Aubert ⁽⁴⁾
Consultant

Simon L'Heureux ^{(3) (4)}
Director of companies

André Desaulniers ⁽³⁾
Director of companies

Paul Pelletier ⁽⁴⁾
Consultant

Louis Garneau ⁽³⁾
President of Louis Garneau
Sports Inc.

Sylvie Lemaire
Vice-President and General
Manager of Fempro Inc.

⁽¹⁾ Member of the Executive Committee
⁽²⁾ Member of the Audit Committee
⁽³⁾ Member of the Remuneration Committee
⁽⁴⁾ Member of the Environmental Committee

OFFICERS

Bernard Lemaire
Chairman of the Board

Laurent Lemaire
President and Chief
Executive Officer

Alain Lemaire
Executive Vice-President

Robert F. Hall
Vice-President Legal Affairs
and Corporate Secretary

André Belzile
Vice-President and
Chief Financial Officer

Norman Boisvert
Vice-President, Administration

Claude Cossette
Vice-President,
Human Resources

Mario Plourde
Vice-President and
Chief Operating Officer,
Specialty Products

Alain Ducharme
Corporate Vice-President

HEAD OFFICES

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Paperboard Industries
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E-mail: boralex@cascades.com

GENERAL INFORMATION

The Annual General Meeting of Shareholders will be held on May 8, 2000 at 11:00 a.m. at the Omni Mont-Royal Hotel, Room Seasons A & B, 1050 Sherbrooke Street West, Montreal, Quebec.

The 1998 Annual Information Form of Cascades Inc. will be available upon request from the Company's head office as of May 19, 2000.

This annual report is available in both French and English.

On peut se procurer la version française du présent rapport en s'adressant au:
Secrétaire corporatif,
Cascades inc., C.P. 30,
Kingsey Falls, Québec,
Canada, J0A 1B0

Transfer agent and registrar:
Montreal Trust Company
Shareholders Services
Telephone: (514) 982-7555
1 800 564-6253

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Press releases for the Cascades Group are available on the Internet by simply entering your e-mail address on the virtual Cascadeur found on the home page of our Internet site at the following address:
www.cascades.com

ENVIRONMENTAL REPORT OF CASCADES INC.

The Environmental Report of Cascades Inc. as well as the Environmental Performance Sheet of the Cascades Group is available upon request at:

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An organization on an international scale
www.cascades.com